$10.00

Ontario
Energy
Board

Ontario

IN THE MATTER OF THE
ONTARIO ENERGY BOARD ACT
AND
IN THE MATTER OF A
REFERENCE FROM THE
LIEUTENANT GOVERNOR
IN COUNCIL

INTER-CITY GAS CORPORATION

Change in Ownership and Control
of
ICG Utilities (Canada) Ltd.
and
ICG Utilities (Ontario) Ltd

E.B.R.L.G. 34

REPORT OF THE BOARD

Pour des renseignements en français, veuillez communiquer avec la Commission de l'énergie de l'Ontario.

2300, rue Yonge
26e étage
Toronto (Ontario)
M4P 1E4
Téléphone 416/481-1967
(La Commission accepte les appels
à frais virés.)

90-05017/

Ontario
Energy
Board

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ONTARIO ENERGY BOARD ACT
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Change in Ownership and Control
of
ICG Utilities (Canada) Ltd.
and
ICG Utilities (Ontario) Ltd

E.B.R.L.G. 34

REPORT OF THE BOARD

IN THE MATTER OF the Ontario Energy Board Act, R.S.O. 1980, Chapter 332;

AND IN THE MATTER OF certain Undertakings dated June 16, 1988, given by Inter-City Gas Corporation, ICG Utilities (Canada) Ltd. and ICG Utilities (Ontario) Ltd to the Lieutenant Governor in Council;

AND IN THE MATTER OF an application dated August 25, 1989, filed by Inter-City Gas Corporation in accordance with Article 2.3 of the said Undertakings, for leave of the Lieutenant Governor in Council with respect to the proposed change in control of ICG Utilities (Canada) Ltd.;

AND IN THE MATTER of a reference to the Ontario Energy Board, pursuant to Section 36 of the Ontario Energy Board Act, from the Lieutenant Governor in Council by Order-in-Council dated October 12, 1989, to examine and report on whether leave of the Lieutenant Governor in Council as required by Article 2.3 of the 1988 Undertakings should be provided to Inter-City Gas Corporation for the proposed change in control of ICG Utilities (Canada) Ltd..

BEFORE: R.M.R. Higgin
Presiding Member

S.J. Wychowanec, Q.C.
Chairman

R.D. Walker
Member

January 31, 1990

REPORT OF THE BOARD

ISBN 0-7729-6660-5

Ontario

Ontario
Energy
Board

Commission
de l'Énergie
de l'Ontario

P.O. Box 2319
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26th Floor
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M4P 1E4
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January 31, 1990

To His Honour the Lieutenant Governor in Council:

By Order in Council OC 2439/89, dated October 12, 1989, the Ontario Energy Board was directed to hold a public hearing and report on whether Inter-City Gas Corporation should be granted leave, pursuant to 1988 Undertakings given to the Lieutenant Governor in Council, in respect of a proposed change in ownership and control of ICG Utilities (Canada) Ltd. and ICG Utilities (Ontario) Ltd, from Inter-City Gas Corporation to Westcoast Energy Inc..

The Board herewith submits its Report and Recommendations.

Respectfully Submitted

ONTARIO ENERGY BOARD

RMR Higgin

R.M.R. Higgin
Presiding Member

S.J. Wychowanec, Q.C.
Chairman

RDWalker

R.D. Walker
Member

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1.0 THE HEARING

1.1 The Application

1.1.1 Inter-City Gas Corporation ("Inter-City") filed an application dated August 25, 1989, ("the Application") with the Ontario Energy Board ("the Board") in accordance with Article 2.3 of certain undertakings dated June 16, 1988,("the 1988 Undertakings" or "the Undertakings"), given by Inter-City, ICG Utilities (Canada) Ltd. ("ICG Canada") and ICG Utilities (Ontario) Ltd ("ICG Ontario") to the Lieutenant Governor in Council. The Application requested leave of the Lieutenant Governor in Council with respect to the proposed change in control of ICG Canada, pursuant to a Letter of Understanding dated July 4, 1989, ("the Letter of Understanding"), between Inter-City and Westcoast Energy Inc. ("Westcoast").

1.1.2 The Lieutenant Governor in Council, by and with the advice of the Executive Council, issued Order-in-Council 2439/89 dated October 12, 1989, ("the Reference") requiring the Board, pursuant to Section 36 of the Ontario Energy Board Act ("the OEB Act" or "the Act"), to examine and, after holding a public hearing with respect thereto, report to the Lieutenant Governor in Council on the following matter:

> whether leave of the Lieutenant Governor in Council as required by Article 2.3 of the 1988 Undertakings should be provided to Inter-City for the proposed change in control of ICG Canada to be carried out pursuant to the Letter of Understanding between Inter-City and Westcoast.

1.1.3 The Board combined the Application and the Reference into one proceeding under Board File No. E.B.R.L.G. 34.

1.1.4 Article 2.3 of the 1988 Undertakings provides that:

> No action shall be taken by the parties hereto without first obtaining leave of the Lieutenant Governor in Council, that is intended to result in any person acquiring:
>
> (a) more than 20 percent of the voting shares of ICG Ontario; or

(b) control of any person that owns or controls, directly or indirectly, more than 20 percent of the voting shares of ICG Ontario where such voting shares of ICG Ontario constitute a "significant asset" of such person.

The voting shares of ICG Ontario shall be deemed to constitute a "significant asset" of a person where the market value of the voting shares of ICG Ontario, beneficially owned or controlled, directly or indirectly, constitutes 20 percent or more of the aggregate book value of the total assets of such person determined on a consolidated basis in accordance with generally accepted accounting principles.

Application for leave as required above shall be made to the Ontario Energy Board.

1.1.5 The transactions contemplated in the Letter of Understanding between Inter-City and Westcoast are governed by the provisions of Article 2.3 of the 1988 Undertakings because:

(a) the contemplated acquisition of Inter-City's utility businesses by Westcoast, or by a wholly-owned subsidiary of Westcoast, will involve a change in control of ICG Canada;

(b) ICG Canada owns all the outstanding voting shares of ICG Ontario; and

(c) the outstanding voting shares of ICG Ontario constitute a "significant asset" of ICG Canada within the meaning of Article 2.3 of the 1988 Undertakings.

1.2 The Hearing

1.2.1 The Board issued its Notice of Hearing dated October 4, 1989, and Procedural Order No. 1 dated November 2, 1989. These informed interested parties about the hearing and how to apply for funding under the Intervenor Funding Project Act, 1988 ("IFPA"). No IFPA applications were received by the deadline of November 16, 1989. In Procedural Order No. 2, the Board set out a list of questions to be answered by Inter-City and Westcoast as part of the pre-filed evidence in the proceeding.

1.2.2 The Hearing commenced on December 4, 1989 and was completed with the final reply argument of Westcoast being received on December 22, 1989.

1.2.3 A copy of the verbatim transcript of the proceeding and all exhibits are available for review in the Board's Offices.

Appearances

1.2.4 The following parties were represented at the hearing:

Inter-City	J. Roland Q.C.
Board Staff	J. Campion
Westcoast	R. van Banning S. Block
Association of Municipalities of Ontario	G. Kaiser
Union Gas Limited	A. Mudryj
Nitrochem Inc.	G. Sadvari
Central Capital Corporation	J. Ryan R. Miller

Witnesses

1.2.5 The following witnesses appeared on behalf of Inter-City:

P. Marriot	Chief Financial Officer, Inter-City
R.D. Falconer	Vice-President and Director, Wood Gundy Inc.

1.2.6 The following witnesses appeared on behalf of Westcoast:

M. Phelps	President and Chief Executive Officer, Westcoast

A.H. Willms	Executive Vice-President and Chief Operating Officer, Westcoast
G.M. Wilson	Senior Vice-President and Chief Financial Officer, Westcoast
D. Brown	Vice-President and Director, RBC Dominion Securities Inc.

1.2.7 The following witness appeared on behalf of Board Staff:

W.T. Cannon	Associate Professor of Economics and Finance, Queen's University

2.0 BACKGROUND

2.1 Inter-City, ICG Canada and ICG Ontario

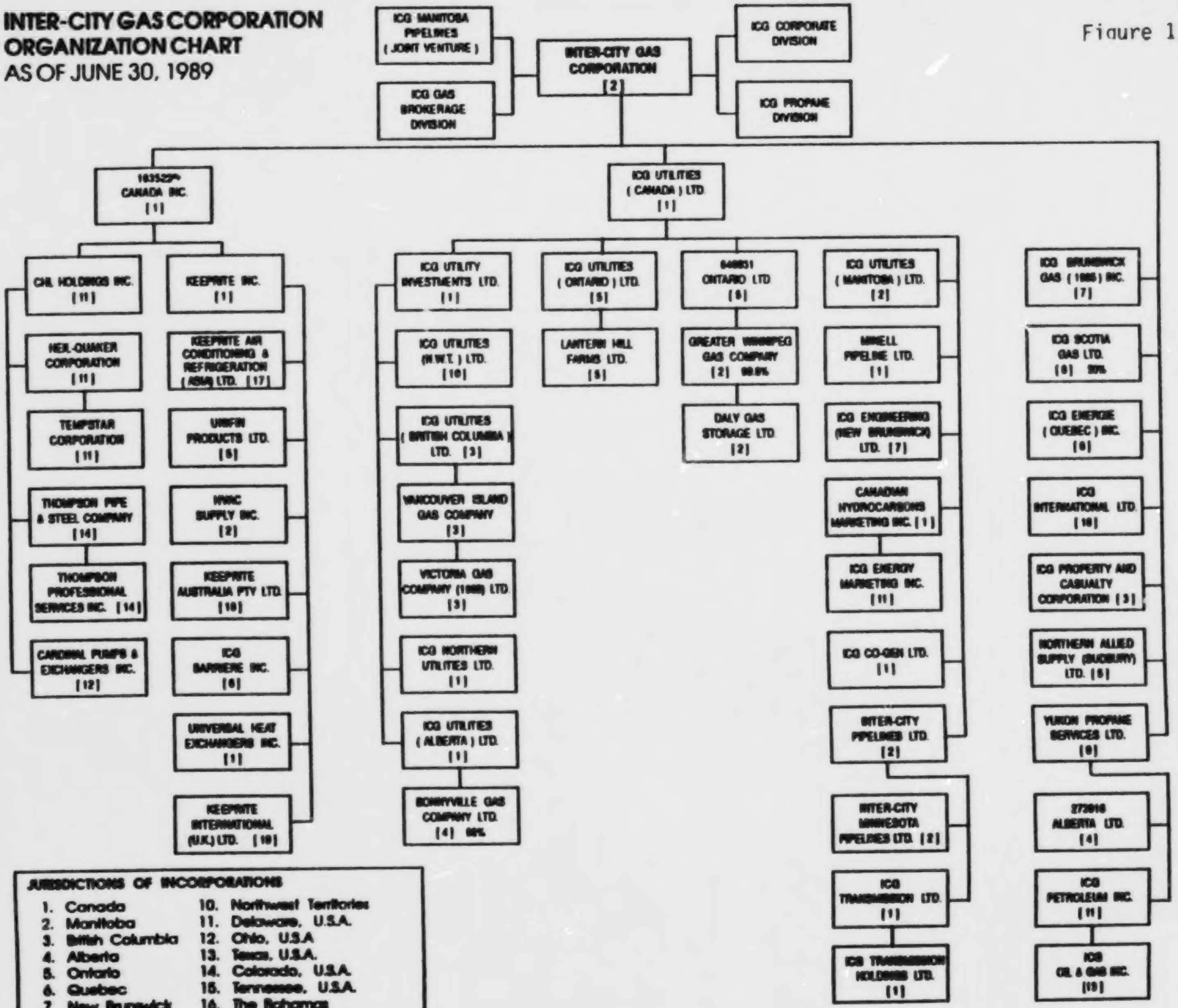
2.1.1 ICG Ontario is a wholly-owned subsidiary of ICG Canada which, in turn, is wholly-owned by Inter-City.

2.1.2 The Inter-City organization chart, at the time of the hearing, is shown in Figure 1.

2.1.3 Inter-City is incorporated under the laws of Manitoba. Its registered head office is in Winnipeg, Manitoba and its executive offices are in Toronto. Approximately 45 percent of the outstanding voting shares of Inter-City are owned indirectly by Central Capital Corporation ("Central Capital") and its affiliates. Inter-City is currently engaged, directly and through subsidiaries, in the transmission and distribution of natural gas, the distribution of propane and related products, the manufacture and distribution of heating and air-conditioning

Figure 1

INTER-CITY GAS CORPORATION ORGANIZATION CHART
AS OF JUNE 30, 1989


ICG MANITOBA PIPELINES (JOINT VENTURE)
ICG GAS BROKERAGE DIVISION
INTER-CITY GAS CORPORATION [2]
ICG CORPORATE DIVISION
ICG PROPANE DIVISION
163529 CANADA INC. [1]
CHL HOLDINGS INC. [11]
HEIL-QUAKER CORPORATION [11]
TEMPSTAR CORPORATION [11]
THOMPSON PIPE & STEEL COMPANY [14]
THOMPSON PROFESSIONAL SERVICES INC. [14]
CARDINAL PUMPS & EXCHANGERS INC. [12]
KEEPRITE INC. [1]
KEEPRITE AIR CONDITIONING & REFRIGERATION (ASIA) LTD. [17]
UNIFIN PRODUCTS LTD. [5]
HVAC SUPPLY INC. [2]
KEEPRITE AUSTRALIA PTY LTD. [18]
ICG BARRIERE INC. [6]
UNIVERSAL HEAT EXCHANGERS INC. [1]
KEEPRITE INTERNATIONAL (U.K.) LTD. [19]
ICG UTILITIES (CANADA) LTD [1]
ICG UTILITY INVESTMENTS LTD. [1]
ICG UTILITIES (N.W.T.) LTD. [10]
ICG UTILITIES (BRITISH COLUMBIA) LTD. [3]
VANCOUVER ISLAND GAS COMPANY [3]
VICTORIA GAS COMPANY (1986) LTD. [3]
ICG NORTHERN UTILITIES LTD. [1]
ICG UTILITIES (ALBERTA) LTD. [1]
BONNYVILLE GAS COMPANY LTD. [4] 60%
ICG UTILITIES (ONTARIO) LTD. [5]
LANTERN HILL FARMS LTD. [5]
648831 ONTARIO LTD [5]
GREATER WINNIPEG GAS COMPANY [2] 99.9%
DALY GAS STORAGE LTD [2]
ICG UTILITIES (MANITOBA) LTD. [2]
MINELL PIPELINE LTD. [1]
ICG ENGINEERING (NEW BRUNSWICK) LTD. [7]
CANADIAN HYDROCARBONS MARKETING INC. [1]
ICG ENERGY MARKETING INC. [11]
ICG CO-GEN LTD. [1]
INTER-CITY PIPELINES LTD. [2]
INTER-CITY MINNESOTA PIPELINES LTD. [2]
ICG TRANSMISSION LTD. [1]
ICG TRANSMISSION HOLDINGS LTD. [1]
ICG BRUNSWICK GAS (1985) INC. [7]
ICG SCOTIA GAS LTD. [8] 30%
ICG ENERGIE (QUEBEC) INC. [6]
ICG INTERNATIONAL LTD. [16]
ICG PROPERTY AND CASUALTY CORPORATION [3]
NORTHERN ALLIED SUPPLY (SUDBURY) LTD. [5]
YUKON PROPANE SERVICES LTD. [9]
273916 ALBERTA LTD. [4]
ICG PETROLEUM INC. [11]
ICG OIL & GAS INC. [13]

JURISDICTIONS OF INCORPORATIONS

1. Canada
2. Manitoba
3. British Columbia
4. Alberta
5. Ontario
6. Quebec
7. New Brunswick
8. Nova Scotia
9. Yukon Territory
10. Northwest Territories
11. Delaware, U.S.A.
12. Ohio, U.S.A
13. Texas, U.S.A.
14. Colorado, U.S.A.
15. Tennessee, U.S.A.
16. The Bahamas
17. Hong Kong
18. New South Wales, Australia
19. United Kingdom

All subsidiaries are 100% owned unless otherwise indicated.

equipment and related products, and the fabrication of steel pipe. Inter-City sold substantially all of its petro- leum resources business to the Saskatchewan Oil and Gas Corporation and Shell Canada Limited in June 1989.

2.1.4 ICG Ontario operates a regulated gas distribution business ("the utility") and holds municipal franchises in northern Ontario and several southern and eastern areas of Ontario. A map of the distribution system of ICG Ontario is shown in Figure 2.

2.1.5 The utility operations of ICG Ontario serve some 150,000 customers in over 100 cities, towns, townships and villages, with gas transmitted from western Canada by TransCanada PipeLines Limited ("TCPL"). ICG purchases gas directly for its utility operations from a number of suppliers of which the largest is Western Gas Marketing Limited, a wholly-owned subsidiary of TCPL.

Financial Positions Prior to Change in Control

2.1.6 Highlights of the financial position of Inter-City, together with those of ICG Ontario and Westcoast, are shown in Table 1. ICG Ontario's Consolidated Balance Sheet and

DISTRIBUTION NETWORK

Figure 2

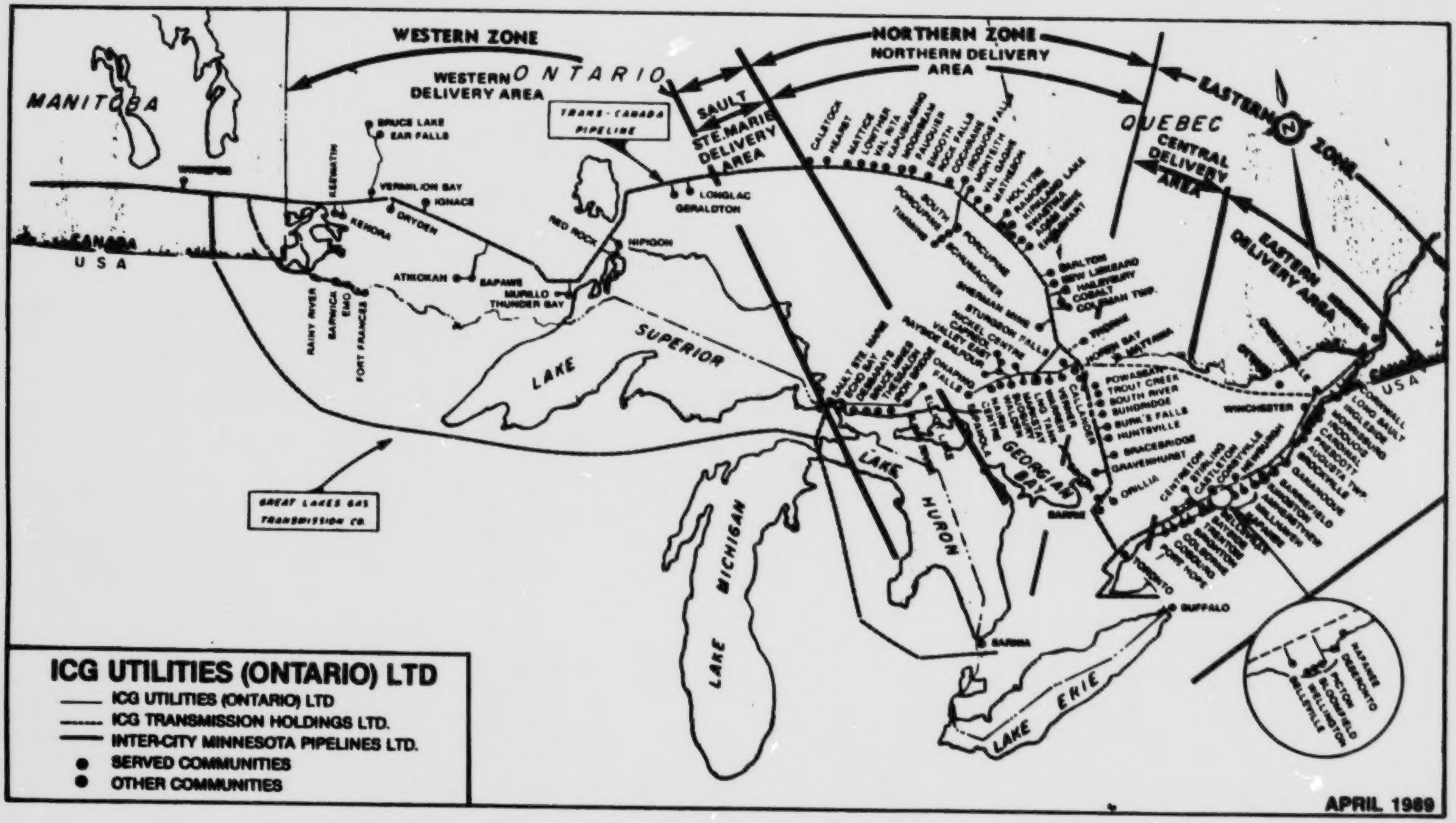

WESTERN ZONE
WESTERN DELIVERY AREA
ONTARIO
NORTHERN ZONE
NORTHERN DELIVERY AREA
SAULT STE. MARIE DELIVERY AREA
QUEBEC
CENTRAL DELIVERY AREA
EASTERN ZONE
EASTERN DELIVERY AREA
MANITOBA
CANADA
USA
TRANS-CANADA PIPELINE
GREAT LAKES GAS TRANSMISSION CO.
LAKE SUPERIOR
LAKE MICHIGAN
LAKE HURON
GEORGIAN BAY
LAKE ERIE
BRUCE LAKE
EAR FALLS
KEEWATIN
VERMILION BAY
IGNACE
KENORA
DRYDEN
RAINY RIVER
BARWICK
EMO
FORT FRANCES
ATIKOKAN
SAPAWE
MURILLO
THUNDER BAY
RED ROCK
NIPIGON
LONGLAC
GERALDTON
CALSTOCK
HEARST
MATTICE
LOWTHER
VAL RITA
KAPUSKASING
MOONBEAM
FAUQUIER
SMOOTH
ROCK FALLS
COCHRANE
IROQUOIS FALLS
MONTEITH
VAL GAGNE
MATHESON
HOLTYRE
RAMORE
KIRKLAND LAKE
SOUTH PORCUPINE
TIMMINS
PORCUPINE
SCHUMACHER
EARLTON
NEW LISKEARD
HAILEYBURY
COBALT
COLEMAN TWP.
SHERMAN MINE
STURGEON FALLS
NICKEL CENTRE
CAPREOL
VALLEY EAST
RAYSIDE BALFOUR
ONAPING FALLS
SAULT STE. MARIE
ESPANOLA
NAIRN CENTRE
WALDEN
SUDBURY
MARKSTAY
LINO TANK
WARREN
VERNER
CALLANDER
NORTH BAY
MATTAWA
POWASSAN
TROUT CREEK
SOUTH RIVER
SUNDRIDGE
BURK'S FALLS
HUNTSVILLE
BRACEBRIDGE
GRAVENHURST
ORILLIA
BARRIE
TORONTO
BUFFALO
SARNIA
CENTRETON
STIRLING
CASTLETON
CODRINGTON
WINCHESTER
CORNWALL
LONG SAULT
INGLESIDE
MORRISBURG
IROQUOIS
CARDINAL
PRESCOTT
AUGUSTA TWP.
BROCKVILLE
GANANOQUE
BARRIEFIELD
KINGSTON
TRENTON
COLBORNE
COBOURG
PORT HOPE
NAPANEE
DESERONTO
PICTON
BLOOMFIELD
WELLINGTON
BELLEVILLE
ICG UTILITIES (ONTARIO) LTD
ICG UTILITIES (ONTARIO) LTD
ICG TRANSMISSION HOLDINGS LTD.
INTER-CITY MINNESOTA PIPELINES LTD.
SERVED COMMUNITIES
OTHER COMMUNITIES
APRIL 1989

Table 1

Financial Highlights
ICG Ontario, Inter-City, Westcoast
Fiscal Year 1988

	ICG Ontario	Inter-City	Westcoast
Balance Sheet Data			
Assets ($ million)	739.8	2120.8	2162.9
Shareholders' Equity ($ million)	293.2	491.6	760.3
Long-Term Debt ($ million)*	260.8	849.3	810.4
Income Statement Data			
Operating Revenue ($ million)	634.2	1815.5	690.0
Net Income ($ million)	36.5	39.8	62.0
Financial Ratio Data			
Equity Ratio (%)	41.8	26.2	38.9
Debt Ratio (%)	53.5	69.3	54.6
Interest Coverage Before Tax (times)	2.64	1.61	1.98
Cash Flow as % of Debt	17.9	11.8	16.80
Asset Coverage (times)	1.87	1.54	1.83
Net Profit Margin (%)	5.8	2.2	7.4
ROR on Average Common Equity (%)	13.4	8.1	8.4

Security Ratings		ICG Ontario	Inter-City	Westcoast
First Mortgage Bonds	DBRS	A	BBB	A (low)
	CBRS	B++	ncr**	A (high)
Debentures	DBRS	A (low)	BBB	BBB (high)
	CBRS	B++	ncr**	BB+ (high)
Senior Preferred	DBRS	Pfd-2	Pfd-4	Pfd-3
	CBRS	P-3	ncr**	P-2
Junior Preferred	DBRS	-	Pfd-4 (low)	Pfd-3 (low)
	CBRS	-	P-3	P-3

Sources: Exhibit E3
Appendix B

* includes current portion
** ncr = not currently rated
DBRS = Dominion Bond Rating Service
CBRS = Canadian Bond Rating Service

Statement of Operations pertaining to the 1988 fiscal year are shown in Appendix B-2.

2.1.7 At December 31, 1988, the book value of ICG Ontario's assets stood at $740 million. The utility rate base was $399 million as determined by the Board in its E.B.R.O. 440 Decision which dealt with 1988 as the test year. Its equity ratio was 41.8 percent and its total debt ratio 53.5 percent, excluding short-term debt. Operating income for 1988 was $634.2 million and net income $36.5 million, prior to payment of a dividend on preference shares. The majority of this income was stated to be associated with ICG Ontario's utility operations. Net profit margin for 1988 was 5.8 percent and the return on average common equity was 13.4 percent.

2.1.8 Effective June 30, 1989, the common shares of Greater Winnipeg Gas ("GWG") held by ICG Ontario were transferred to ICG Canada in return for 3,577,254 of ICG Ontario's common shares held by ICG Canada. As of December 31, 1989, ICG Ontario was projected to have assets with a total book value of $669 million. Projected net income for 1989 was $34.6 million, again mostly from ICG Ontario's regulated utility operations.

2.1.9 The Consolidated Balance Sheet and Statement of Operations for 1988 for Inter-City are provided in Appendix B-1 and highlights presented in Table 1. Inter-City is a company with $2.1 billion in assets, a debt ratio of almost 70 percent and a times interest ratio of 1.6 (before tax). The majority of Inter-City assets are associated with its utility subsidiary ICG Canada which also contributed the majority of earnings in 1988.

2.1.10 Inter-City was not highly profitable in 1988, showing a 2.2 percent net profit margin and an 8.1 percent return on average common equity. This compares with the previously noted 5.8 percent net profit margin and 13.4 percent return on average common equity for ICG Ontario.

2.2 Westcoast

2.2.1 Westcoast is a British Columbia based energy corporation operating a natural gas processing and mainline transmission system serving British Columbia, and carrying natural gas from the fields of northeastern British Columbia, the Yukon and the Northwest Territories to markets in the United States. Westcoast's operations include gas transmission pipelines, as well as facilities for the processing of natural gas, sulphur and natural gas liquids. Through certain affiliates, Westcoast has a significant indirect interest in the Canadian segment of the Alaska Highway Natural Gas Pipeline Project, in a natural gas distribution company in west-central British Columbia and in a gas processing and sulphur extraction plant in southwestern Alberta. Through certain subsidiaries, Westcoast is also involved in the exploration for, and development and production of, oil and natural gas. The Westcoast Organization Chart is shown in Figure 3.

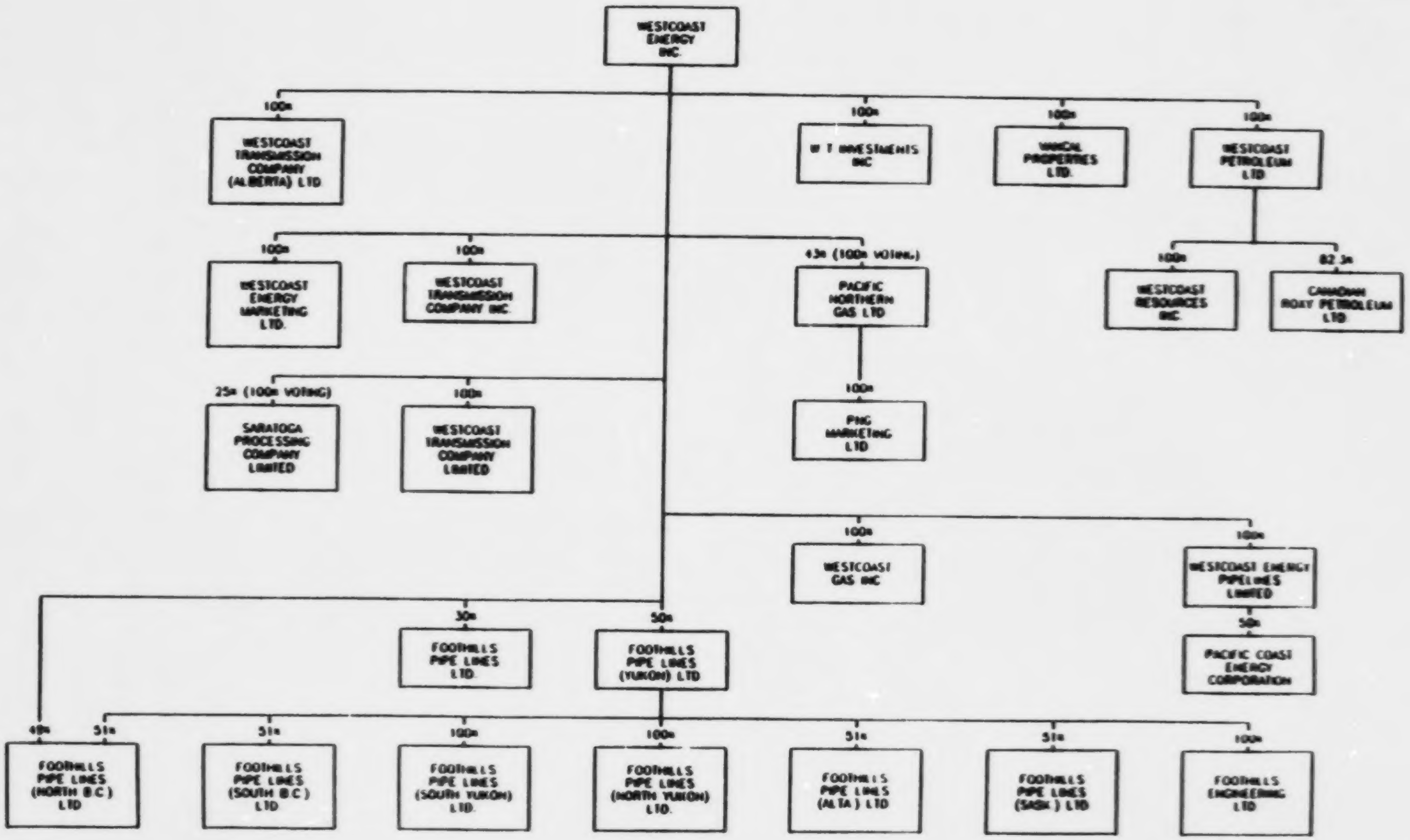
2.2.2 As can be seen from Table 1 and Appendix B-3, at December 31, 1988, the consolidated assets of Westcoast were $2.16 billion. Evidence in the hearing indicated that the rate base associated with Westcoast's utility operations was about $750 million. In 1988, Westcoast's capital expenditures on gas processing and utility-related transportation facilities were approximately $62 million, resulting in the continued growth of Westcoast's aggregate utility rate base.

2.2.3 As of December 1988, Westcoast, on a pre-acquisition basis, had a lower debt ratio than Inter-City (55 percent vs 69 percent) and a higher before tax times interest coverage (2.0x vs 1.6x). Its profit margin and return

Figure 3

ORG086

/15


WESTCOAST ENERGY INC.
100%
WESTCOAST TRANSMISSION COMPANY (ALBERTA) LTD
100%
W T INVESTMENTS INC
100%
VANCAL PROPERTIES LTD.
100%
WESTCOAST PETROLEUM LTD
100%
WESTCOAST RESOURCES INC
82.3%
CANADIAN ROXY PETROLEUM LTD
100%
WESTCOAST ENERGY MARKETING LTD.
100%
WESTCOAST TRANSMISSION COMPANY INC.
43% (100% VOTING)
PACIFIC NORTHERN GAS LTD
100%
PNG MARKETING LTD
25% (100% VOTING)
SARATOGA PROCESSING COMPANY LIMITED
100%
WESTCOAST TRANSMISSION COMPANY LIMITED
100%
WESTCOAST GAS INC
100%
WESTCOAST ENERGY PIPELINES LIMITED
50%
PACIFIC COAST ENERGY CORPORATION
30%
FOOTHILLS PIPE LINES LTD.
50%
FOOTHILLS PIPE LINES (YUKON) LTD
49%
51%
FOOTHILLS PIPE LINES (NORTH B.C.) LTD
51%
FOOTHILLS PIPE LINES (SOUTH B.C.) LTD
100%
FOOTHILLS PIPE LINES (SOUTH YUKON) LTD.
100%
FOOTHILLS PIPE LINES (NORTH YUKON) LTD.
51%
FOOTHILLS PIPE LINES (ALTA.) LTD
51%
FOOTHILLS PIPE LINES (SASK.) LTD
100%
FOOTHILLS ENGINEERING LTD

SCHEDULE "E" TO WESTCOAST EVIDENCE

WESTCOAST ENERGY INC
ORGANIZATION CHART

CORPORATE STRUCTURE

AS OF NOV 21, 1989

E1

on common equity for the 1988 operating year were also higher than for Inter-City (7.4 percent vs 2.2 percent and 8.4 percent vs 8.1 percent respectively).

2.3 Proposed Change in Control

2.3.1 Inter-City acquired control of ICG Ontario (then named Northern and Central Gas Corporation Limited) from Norcen Energy Resources Limited ("Norcen") in 1985. All the voting shares of ICG Ontario are now held by ICG Canada which, either directly or through subsidiaries, also holds the shares of corporations operating gas distribution or transmission systems in Manitoba, Alberta, British Columbia, the Northwest Territories, and Minnesota, U.S.A..

2.3.2 The acquisition of ICG Canada by Westcoast is the result of the process which was initiated by Central Capital to dispose of its interest in Inter-City. On December 8, 1988, Central Capital announced publicly that it wished to dispose of its investment in ICG Canada. From the bidding process which was conducted by Merrill Lynch Canada Inc. on behalf of Central Capital, it became apparent that most bidders were more interested in buying the separate businesses of Inter-City, rather than the shares of Inter-City whereby the successful bidder would have acquired control of all of the businesses of Inter-City.

2.3.3 Westcoast bid for two of the businesses of Inter-City, namely the natural gas distribution business and the propane business and was the successful bidder after two rounds of bidding. The form of transaction being proposed for the sale of Inter-City's utility business will result in the transfer, by Inter-City, of its interest in ICG Canada to Westcoast Gas Inc. ("Westcoast Gas"), a wholly-owned subsidiary of Westcoast.

2.3.4 Inter-City and Westcoast entered into the Letter of Understanding in July 1989 and into a final agreement dated December 11, 1989 ("the Arrangement Agreement"). The Arrangement Agreement is subject to a number of conditions precedent, which include obtaining the leave of the Lieutenant Governor in Council, pursuant to the 1988 Undertakings.

2.3.5 With respect to the acquisition of ICG Canada, Westcoast stated that it has the financial resources, performance record and credibility to give investors, creditors, suppliers and consumers continued confidence in ICG Ontario. It also stated that, in its opinion, the Canadian bond rating agencies and market in general, will view the change in control of ICG Canada as at least neutral, and there would be no effect on ICG Ontario's ability to raise additional capital or on its cost of funds.

3.0 DETAILS OF THE PROPOSED CHANGE IN CONTROL OF ICG ONTARIO

3.1 Introduction

3.1.1 This chapter documents the main evidence regarding the proposed transaction and its financing; the post-transaction organizational and financial structure of ICG Ontario and its controlling Westcoast affiliates; and the management structure and policies affecting ICG Ontario in its relationship with Westcoast and its affiliates.

3.2 The Proposed Transaction

3.2.1 The proposed transaction, as set out in the Letter of Understanding, comprises two parts. The first is the sale of Inter-City's utility business; the second is the sale of Inter-City's propane business. Inter-City will reorganize its affairs such that its businesses will be divided into three distinct corporate business units: (a) utility; (b) propane; and (c) heating and air conditioning and other manufacturing activities ("the manufacturing business").

3.2.2 The sale of the utility and propane business units to Westcoast will be effected in two stages. The first stage is to establish each of the utility and propane business units under new corporate entities. The second stage will involve the sale of the shares of these entities to Westcoast Gas, a wholly-owned subsidiary of Westcoast.

3.2.3 In the case of the utility business unit, Inter-City will first transfer all of its subsidiary utility businesses into ICG Canada, the entity which presently owns ICG Ontario. The shares of ICG Canada will then be transferred to a new corporate entity, 2451417 Manitoba Ltd. ("2451417 Manitoba"). For tax reasons, this latter transfer will be facilitated by the creation of another new company, 2484685 Manitoba Ltd., which will be then wound up into 2451417 Manitoba.

3.2.4 Westcoast, on its part, will set up a wholly-owned new subsidiary, Westcoast Gas, which will purchase all the shares of 2451417 Manitoba.

3.2.5 Inter-City will transfer all of its propane business unit into a new company, The Chancellor Holdings Corporation ("Chancellor"). Westcoast Gas will purchase all the shares of Chancellor for $221 million (adjusted for post-January 1989 earnings) and will immediately sell these shares to Petro-Canada Inc. ("Petro-Canada") for the same price. Should this latter sale not materialize for whatever reason, then, as set out in the Letter of Understanding, the whole transaction would fail. A schematic of the transaction is shown in Figure 4.

3.2.6 The final corporate structure will be as follows: the newly-incorporated wholly-owned subsidiary of Westcoast, Westcoast Gas, will own the shares of 2451417 Manitoba; which will own all the common shares of ICG Canada which; in turn, will own all of the issued and outstanding common shares of ICG Ontario. A schematic representation of these relationships is presented in Figure 5.

Financing of the Transaction

3.2.7 The total purchase price paid by Westcoast for Inter-City's utility business unit, assuming a

Description of Transaction

Figure 4

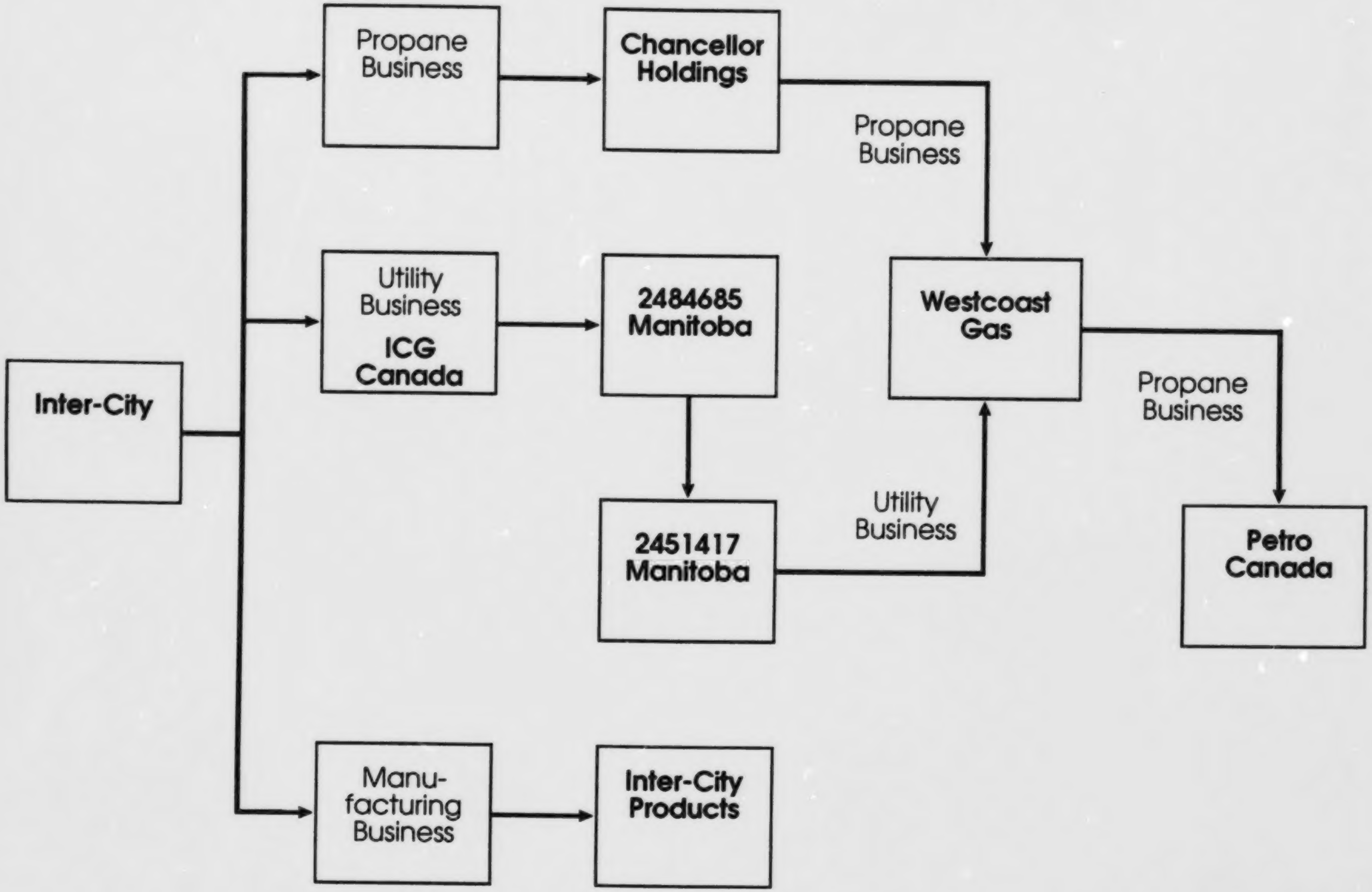
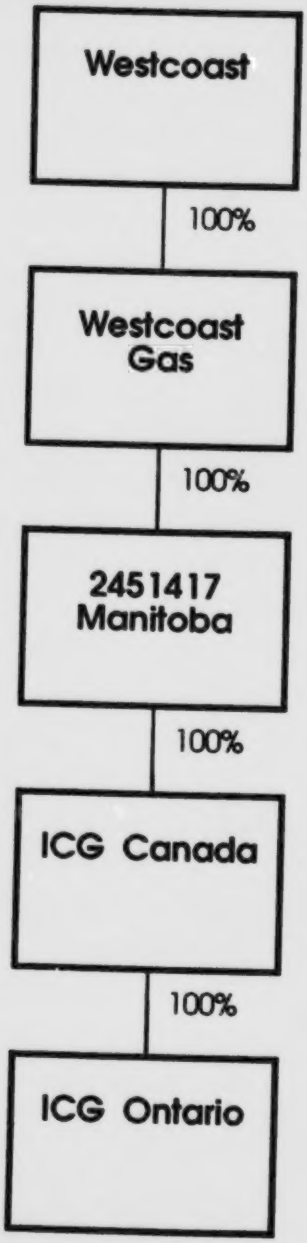

Inter-City
Propane Business
Utility Business
ICG Canada
Manu-facturing Business
Chancellor Holdings
2484685 Manitoba
2451417 Manitoba
Inter-City Products
Propane Business
Utility Business
Westcoast Gas
Propane Business
Petro Canada

Figure 5

Corporate Structure Reflecting Acquisition


Westcoast
100%
Westcoast Gas
100%
2451417 Manitoba
100%
ICG Canada
100%
ICG Ontario

closing on April 2, 1990, will be made up of the following components: $444 million, being the price Westcoast is willing to pay for Inter-City's utility business based on the assets and financial position as of December 31, 1988; $18 million, being the estimated earnings from January 1, 1989 to September 30, 1989; $18 million being the estimated utility earnings from October 1, 1989 to December 31, 1989; a further $9 million being the estimated earnings from January 1, 1990 to March 31, 1990.

3.2.8 The $444 million component includes the assumption by the new owners, through 2451417 Manitoba, of $46 million in debt currently owed to ICG Ontario by Inter-City ("the Inter-City note" or "the note"). The net cash requirement of Westcoast Gas to fund the purchase will therefore be approximately $400 million plus earnings adjustments referred to above.

3.2.9 Westcoast Gas will raise the $400 million by issuing its shares to Westcoast. Westcoast will raise approximately 25 percent of the $400 million by the issuance of about $60 million of Westcoast common shares and approximately $40 million from the sale of certain non-utility assets. The remaining 75 percent will be borrowed by Westcoast Gas from a bank and loaned to Westcoast ("the uphill loan").

3.2.10 In order to arrive at the net result above, Westcoast will initially borrow from the bank the $400 million to be invested in Westcoast Gas. This loan will be paid off, in an amount of $100 million as described in the preceding paragraph. Westcoast will hold $300 million as the 'uphill loan' which it will use to purchase the shares of Westcoast Gas. A schematic representation of the proposed financing is presented in Figure 6.

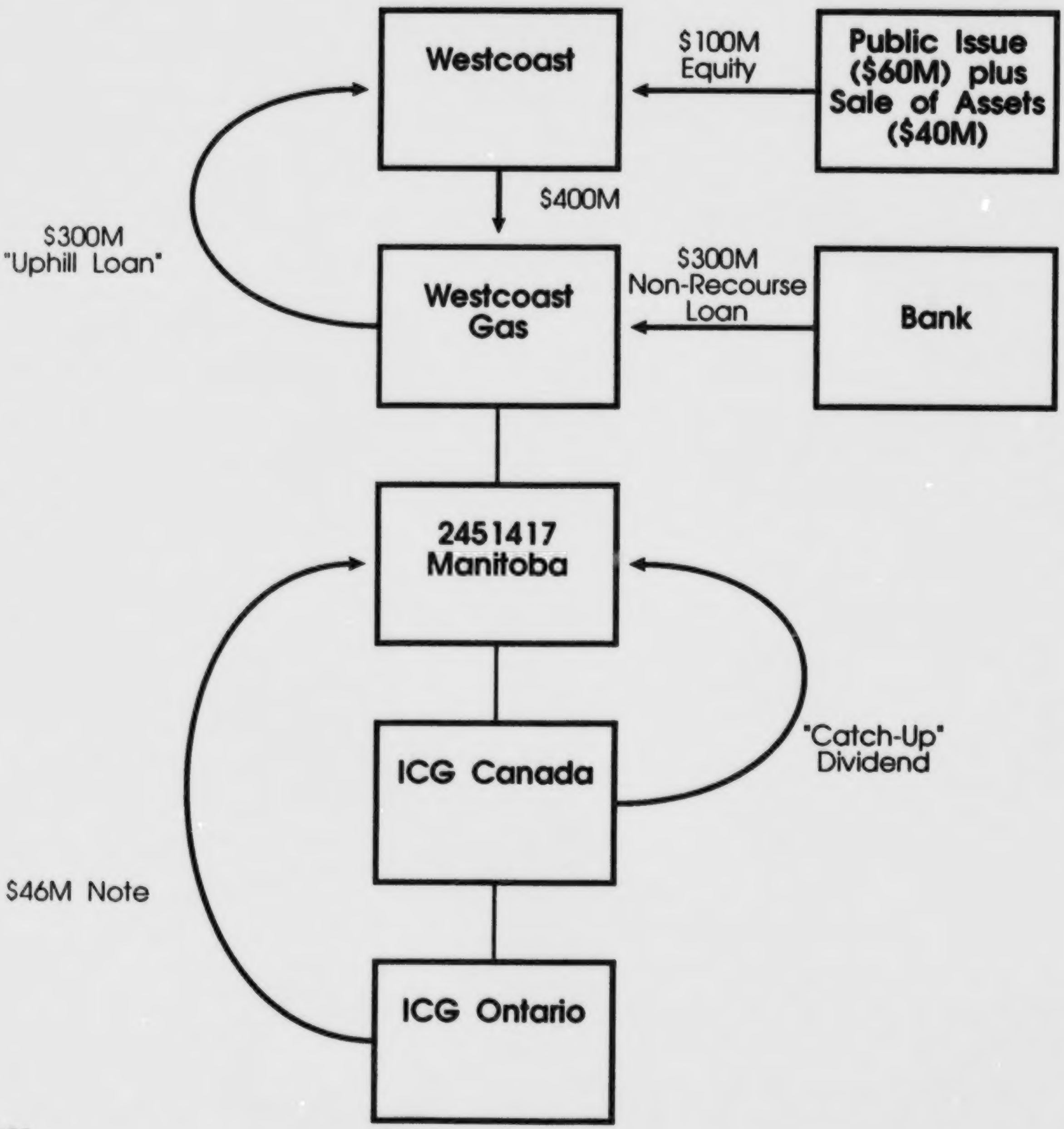
3.2.11 The acquisition costs in addition to the $444 million, amounting to about $45 million, (April 2, 1990 closing) will be financed from the earnings of the utilities business in 1989/90, by way of a "catch-up" dividend and/or by equity infusion. Assuming April 2, 1990 as the closing date, it was estimated by Westcoast that approximately 50 percent of the additional funding requirements, or about $22.5 million, will be financed by the "catch-up" dividend and the remaining 50 percent through the normal equity channels available to the new owners.

Position of Inter-City Shareholders

3.2.12 Inter-City has proposed that when the deal closes, a share exchange will take place

Figure 6

Acquisition Financial Structure


Westcoast
$100M
Equity
Public Issue ($60M) plus Sale of Assets ($40M)
$400M
$300M
"Uphill Loan"
Westcoast Gas
$300M
Non-Recourse
Loan
Bank
2451417
Manitoba
ICG Canada
"Catch-Up"
Dividend
$46M Note
ICG Ontario

whereby the existing common shareholders of Inter-City will, for each share held in the existing company, receive one share of each of 2451417 Manitoba, Chancellor, and the residual Inter-City company which is to be renamed Inter-City Products Corporation ("Inter-City Products"). The shareholders will then receive a cash payment of $21 for the sale of their shares in 2451417 Manitoba to Westcoast Gas and the sale of their shares in the propane business, through Chancellor and Westcoast Gas, to Petro-Canada. In addition to their continued interest in Inter-City Products, Inter-City shareholders will also receive one warrant for every 4 shares of Inter-City, giving them the right to acquire new preference shares which are convertible into common shares of Inter-City Products.

3.2.13 The value ascribed to the existing Inter-City stock in exchange for each business unit will be determined by Burns Fry Limited based upon that firm's estimate of the total value of Inter-City at the effective date of the Arrangement Agreement. Assuming a market value of $25 per share for Inter-City's stock, Inter-City testified that the utility business will account for about 57 percent or $14.25, the propane business for about 27 percent or $6.75. The remaining approximately 16 percent or $4.00 will be ascribed to the manufacturing business. The value of the warrant will be determined by the marketplace when the deal takes effect.

3.2.14 In order to establish the warrant, Central Capital, through a subsidiary, will acquire from Norcen the outstanding First Preference Shares of Inter-City. Central Capital will then restructure these shares making them convertible to common shares and available to all shareholders, other than Central Capital, through the warrant which entitles them to buy from Central Capital, one share of Inter-City Products per warrant at $25 until June 30, 2000.

3.2.15 The total consideration to be paid by Central Capital for the First Preference Shares of Inter-City will be $61 million. Central Capital will cancel the note payable by Norcen to Inter-City ("the Norcen note"), which matches the Inter-City note, for $46 million of this and, presumably, provide the balance in cash to Norcen.

3.2.16 Included in the total acquisition price for both the utility and propane businesses is the assumption of certain debt. The purchaser will simultaneously take on $112 million of debt in various Inter-City companies, including 2451417

Manitoba, and will repay that debt through Westcoast Gas. The purchaser will therefore pay to Inter-City's shareholders a cash amount which is net of the $112 million it will pay to the holders of Inter-City debt.

3.2.17 This arrangement governs how much of the cash paid by Westcoast for Inter-City's utility and propane businesses goes directly to the common shareholders of Inter-City and how much goes to reduce the debt of Inter-City Products, the remaining Inter-City company.

3.2.18 The arrangement is subject to review by the Securities Exchange Commission in the United States ("SEC"), the Manitoba Court of Queen's Bench ("the Manitoba Court") and approval at a meeting of shareholders, expected to be held in March 1990. It was pointed out that Inter-City's minority shareholders have the option to exercise their rights of dissent.

3.2.19 As of December 1989, approximately 72 percent of the outstanding common shares of Inter-City were held by shareholders residing in Ontario. Excluding Central Capital's shareholding, about half the remaining shares are held by minority shareholders resident in Ontario.

Approvals

3.2.20 The Arrangement Agreement of December 11, 1989, provides that the transactions contemplated therein are conditional upon Inter-City and Westcoast obtaining all necessary approvals in a form and content satisfactory to both.

3.2.21 In addition to the leave required from the Lieutenant Governor in Council under Article 2.3 of the 1988 Undertakings and the approval of the transaction by the Boards of directors of Inter-City, Westcoast and Central Capital, a number of other regulatory, shareholder, and court approvals must be obtained as conditions precedent to closing. The following is a list of the necessary approvals and the status of each as they stood at the time of the hearing:

a) an advance ruling from Revenue Canada (Taxation) with respect to the proposed transactions which was expected to be received by the end of December 1989;

b) the completion by Westcoast and Petro-Canada of all the "pre-merger notifications" procedures under the Competition Act (Canada). The purpose of the filing is to provide the Bureau of

Competition Policy ("Competition Bureau") with the opportunity to assess the impact of the proposed transaction on competition in Canada. At the time of the hearing it was not known when clearance would be forthcoming;

c) approval by the SEC of the materials to be sent to Inter-City shareholders. This approval is necessary since the common shares of Inter-City are registered under United States securities law. The Management Information and Proxy Statement were submitted to the SEC on December 15, 1989;

d) a favourable ruling from the British Columbia Utilities Commission that an application is not required in respect of the change in control of ICG Utilities (British Columbia) Ltd., a wholly-owned subsidiary of ICG Canada. At the time of the hearing it was not known when a decision would be forthcoming;

e) an exemption from the Alberta Public Utilities Board in respect of the sale of ICG Canada. That Board advised Inter-City to keep it up-to-date with the filings in respect of the hearing before the Ontario Energy Board;

f) approval by the Manitoba Public Utilities Board upon reference to that Board from the Manitoba Government. A public hearing commenced on January 10, 1990;

g) Inter-City shareholders' approval of the Arrangement Agreement at a special shareholder meeting. This meeting will take place after confirmation that a favourable advance ruling will be forthcoming from Revenue Canada, and after the approval of the SEC is obtained; and

h) approval of the Arrangement Agreement by the Manitoba Court. Following the approval of the SEC, Inter-City will be in a position to apply for an interim order allowing it to mail out material and to call a shareholders' meeting. In the event of shareholder approval, the Arrangement Agreement will be submitted to the Court for final approval. Following a hearing, the Court will consider, among other things, whether the arrangement complies with the provisions of The Corporations Act, R.S.M. 1987, c 225, as amended by 1987 c. 24 (Manitoba), and is fair to Inter-City's shareholders.

3.2.22 Inter-City has been advised that no approvals are required with respect to the change of control of its facilities in the Northwest Territories and in Minnesota. At the time of the hearing, Inter-City was investigating whether any regulatory approvals are required in respect of the change in control of ICG (Brunswick) Gas (1985) Inc. and ICG (Scotia) Gas Ltd..

3.2.23 Westcoast and Inter-City hope to receive all approvals in time for the transaction to be completed by April 2, 1990, which is the termination date of the Arrangement Agreement.

3.2.24 Westcoast confirmed that it will consider any conditions attached to regulatory approvals to be reasonable, if these are no more onerous than the conditions applicable to the present regulatory approvals under which Inter-City carries on its utility and propane businesses.

3.3 Post Transaction Structure and Financial Position

3.3.1 This section deals with the post transaction structure and financial position of ICG Ontario, or its successor, and the companies which control it. Particular emphasis has been given to evidence on the impact of the acquisition on the financial position and management of ICG Ontario.

3.3.2 As described earlier, and depicted in Figure 5, the final ownership structure will be as follows: ICG Ontario will continue to be wholly-owned by ICG Canada. ICG Canada will be wholly-owned by 2451417 Manitoba which in turn, will be wholly-owned by Westcoast Gas, a wholly-owned subsidiary of Westcoast. ICG Ontario will, therefore, be owned indirectly by Westcoast.

3.3.3 The evidence indicated that ICG Ontario's utility business and its investments and activities in cogeneration will continue as at present. There will however be two areas of change worth noting. The first is the replacement of Inter-City by 2451417 Manitoba as the debtor of approximately $46 million owed to ICG Ontario. The second is the pledging of all of ICG Ontario's common shares to the Canadian Imperial Bank of Commerce ("CIBC" or "the bank").

The Inter-City Note

3.3.4 Currently, ICG Ontario holds a demand note in an amount of approximately $46 million payable by Inter-City. The note carries an interest rate of 7.6 percent. There is no repayment schedule attached to the note but one is set out in Article 5.5 of the 1988 Undertakings. This provides for retiring this debt over time or, at any time upon agreement by the two parties.

3.3.5 The evidence indicated that Inter-City holds a demand note in the same amount payable by Norcen with identical terms and conditions to those of the Inter-City note. This reflects the fact that Norcen was originally the payee of a note to ICG Ontario in an amount of $86 million. At the time that Inter-City took over control of ICG Ontario this note was replaced by two notes, one from Norcen payable to Inter-City, and one from Inter-City payable to ICG Ontario.

3.3.6 As part of the proposed transaction, the Norcen note will be retired. Norcen currently owns First Preference Shares of Inter-City. To establish the shareholder warrant, Central Capital will first assume the Norcen note in exchange for these shares. On the effective date of the proposed transaction, Central Capital will then repay to Inter-City the outstanding principal of the note owing by Norcen to Inter-City.

3.3.7 The proposed transaction with Westcoast contemplates the continued existence of the Inter-City note by its assignment to 2451417 Manitoba by Inter-City. As a result of 2451417 Manitoba assuming the note, the cash requirements of the purchaser will be reduced by the note's remaining balance in the amount of approximately $46 million. This proposed assignment of the note was the focus of much of the cross-examination and argument by the Association of Municipalities of Ontario ("AMO").

3.3.8 AMO maintained that the Inter-City note, if allowed to be assigned as proposed, will constitute a loan from ICG Ontario to 2451417 Manitoba and, as such, is a breach of existing undertakings with respect to affiliate transactions. AMO argued that since the Norcen note will be retired, the Inter-City note should also be retired. AMO also suggested that if the note were to be assumed by 2451417 Manitoba in the transaction, the interest rate should be increased to a market rate of interest.

3.3.9 Westcoast submitted that there is no "loan" involved since there is no cash or other benefit flowing from ICG Ontario to 2451417 Manitoba. It argued that 2451417 Manitoba will be assuming the note from Inter-City in an arms-length transaction and that the transfer of this liability is strictly between Inter-City and 2451417 Manitoba. Westcoast also pointed to the testimony of its Chief Financial Officer that there would be no purpose served by paying off the Inter-City note since the monies would be trapped inside ICG Ontario by trust indenture restrictions. With respect to the higher interest rate argument, Westcoast pointed out that such an increase would be against prudent tax management and it would not reduce gas rates since the interest income earned is a non-utility revenue item.

Pledging of Shares of ICG Ontario

3.3.10 As security for its $300 million loan to Westcoast Gas, the bank will hold a pledge of:

a) Westcoast Gas' shares in 2451417 Manitoba;
b) 2451417 Manitoba's shares in ICG Canada; and
c) ICG Canada's shares in ICG Ontario.

The bank will correspondingly have no recourse to Westcoast.

3.3.11 The bank loan being non-recourse to Westcoast generated some discussion at the hearing about

Westcoast's commitment to its investment. None of the parties suggested, however, that $100 million in equity would not be an adequate incentive for Westcoast to protect its investment in ICG Canada and ICG Ontario.

3.3.12 The loan and pledging of shares raised an issue of the conflict between the CIBC realizing on its security and the provisions of Section 26(2) of the Act and Article 2.3 of the Undertakings and also an issue of the relative priority of ICG Ontario's claims on 2451417 Manitoba.

3.3.13 Westcoast's witnesses testified that the bank has no right to interrupt the flow of dividends from ICG Canada to 2451417 Manitoba until it realizes on its security. The bank acknowledged, in a letter introduced in evidence at the hearing, that it cannot realize on its security on more than 20 percent of the shares of ICG Ontario or on shares constituting control of 2451417 Manitoba or ICG Canada, without the approval of the Lieutenant Governor in Council as provided in Section 26(2) of the Act and article 2.3 of the Undertakings.

3.3.14 Westcoast's evidence suggested that the bank, by merely holding a pledge of the shares of 2451417 Manitoba, would rank behind ICG Ontario's claims on its $46 million demand note. To provide further assurance against any possibility of default in payments to ICG Ontario on the $46 million demand note, Westcoast stated that it is prepared to provide a suitable undertaking whereby a letter of credit or guarantee would be issued by a bank, likely the CIBC. This will be arranged without any expense to ICG Ontario.

3.3.15 Counsel to AMO suggested that, in addition to providing a guarantee, the bank should also become a party to the undertakings. Westcoast questioned the need for this, since ICG Ontario will be fully protected and warned that the likely refusal by the CIBC to be a party, would place the whole transaction at risk.

Financial Position of ICG Ontario

3.3.16 With respect to the impact of the proposed transaction on the financial position of ICG Ontario, evidence was provided on the immediate impact on its capital structure and on its credit ratings.

Capital Structure

3.3.17 Following the transaction, all issued and outstanding common shares of ICG Ontario will continue to be held by ICG Canada. All preference shares in the capital of ICG Ontario will remain outstanding and the debt profile of ICG Ontario will remain unchanged.

3.3.18 As indicated earlier, Westcoast plans to finance its purchase cost in excess of the $400 million, an amount of about $45 million, using the 1989/90 earnings of ICG Canada's utility business by way of a "catch-up" dividend.

3.3.19 Upon request, Westcoast provided post transaction pro forma financial statements for fiscal year 1989 under two sets of assumptions: the first showing a normal dividend payment which consists of 60 percent of utility income and 100 percent of non-utility income; the second showing an enhanced dividend payment of 100 percent of both streams of income.

3.3.20 With the normal dividend payment, the component of ICG Ontario's total capital financed by common equity was calculated by Inter-City at 36.0 percent, which is identical to the level currently deemed appropriate by the Board. With the enhanced dividend payment, the common equity portion was estimated to fall to 34.6 percent. Both the long-term debt and preference share components remain the same under the two dividend payout assumptions.

3.3.21 Westcoast testified that in setting the level of the "catch-up" dividend from ICG Ontario, it will consider Article 4.1 of the 1988 Undertakings, or its successor, which requires the shareholder to maintain an appropriate level of common equity in ICG Ontario.

Need for a Public Float

3.3.22 Dr. Cannon, appearing on behalf of Board Staff, suggested that a public float of at least 20 percent of ICG Ontario's outstanding common shares would produce cost advantages in raising non-equity capital. He also stated that a public float would enhance the regulatory effectiveness of the Board in respect of rate of return determination, and would be in the interest of both investors and the public at large.

3.3.23 Westcoast confirmed that there are no legal restrictions to establishing such a public float. However, the expert financial witnesses for both Inter-City and Westcoast rejected the notion that a public float will result in a lower cost of raising either preference shares or debt. Westcoast's witnesses also testified that the total initial cost of establishing the public float will be about $3.0 million, and estimated that the ongoing annual cost of maintaining the public float would be $250,000.

3.3.24 Counsel to Westcoast, in argument, maintained that the Board does not have jurisdiction to impose such a public float.

Credit Ratings of ICG Ontario Securities

3.3.25 The securities of ICG Ontario are rated by both Canadian credit rating services. The current ratings by Dominion Bond Rating Service ("DBRS") and by Canadian Bond Rating Service ("CBRS") as shown in Table 1 are as follows:.

Security	Rating	
	CBRS	DBRS
First Mortgage Bonds	B++	A
Senior Debentures	B++	A(low)
Preferred Shares	P-3	Pfd-2

3.3.26 Mr. Falconer, the expert financial witness for Inter-City, indicated that the proposed transaction will probably result in both rating agencies reviewing their ratings of ICG Ontario's securities. However, he concluded that such a review will not likely produce any changes to the current ratings. In support of this conclusion, he pointed out that ICG Ontario has always been operated and financed as an independent entity, that Westcoast expressed its willingness to adopt the undertakings as they now exist, and that this relationship will continue in the future.

3.3.27 Mr. Falconer indicated that in August 1989, a successful $75 million private placement of ICG Ontario 10.75 percent debentures was made, subsequent to the announcement of the proposed transaction. He stated that the interest rate for that issue and the investor response was consistent with ICG Ontario's credit ratings.

3.3.28 It was Mr. Falconer's opinion that the change in ownership will not have any material impact on ICG Ontario's ability to access capital markets on favourable terms. The independence of its finance and operations, the regulated nature of the business of ICG Ontario, together with Westcoast's future plans and willingness to provide undertakings similar to those in existence, all provide further comfort regarding the ongoing financial structure and operations of ICG Ontario.

3.4 Westcoast and its Affiliates after the Change in Control

3.4.1 This section summarizes the evidence with respect to Westcoast's new structure following the acquisition of ICG Canada, its ability to raise equity to finance both the purchase of ICG Canada and Ranger Oil Ltd. ("Ranger Oil"), and the evidence comparing the financial position of Westcoast to that of Inter-City.

Post-acquisition Financial Position

3.4.2 On December 8, 1989, Westcoast announced that it had agreed, through a wholly-owned subsidiary, Westcoast Petroleum Ltd., to acquire 10,236,064 common shares of Ranger Oil from Inter-City at a price of $7.25 per share. These represent 12.1 percent of the outstanding common shares of Ranger Oil.

3.4.3 As noted in the review of the proposed transaction, Westcoast will structure the ICG Canada acquisition on the basis of a non-recourse loan from the CIBC, which will initially provide $400 million secured by the pledged shares of the acquired utilities. Within three months of the completion of the transaction, it is expected that about $60 million in equity will be raised through an additional offering of Westcoast common shares, and the remaining $40 million will be raised through the sale of certain of Westcoast's non-utility assets. These funds will be used to reduce the bank loan to about $300 million, which is the additional debt Westcoast and its affiliates will assume in exchange for the income stream of the acquired utility businesses.

3.4.4 Testifying on Westcoast's ability to issue additional common shares, Mr. Brown stated that, given capital markets more or less similar to those prevailing at the time of the hearing, the $60 million issue of common shares could be arranged quite easily. He also stated that Westcoast should be able to raise additional equity capital on reasonable terms and saw no problem in Westcoast's plans to finance the $75 million Ranger Oil share acquisition entirely by common equity.

3.4.5 The acquisition of ICG Canada through Westcoast Gas will add approximately $987 million in assets to Westcoast's consolidated balance sheet raising the total value of its assets to approximately $3.2 billion. ICG Ontario will make up about 17 percent of the total assets of Westcoast.

3.4.6 The proposed transaction will result in Westcoast having a rate base approximately twice as large as the present level of $750 million.

3.4.7 Westcoast indicated that its major regulated utility investments will be Foothills Pipe Lines (Yukon) Ltd., Pacific Northern Gas Ltd, and ICG Canada. Westcoast will have a 50 percent direct ownership of Foothills Pipe Lines (Yukon) Ltd., a 43 percent (100 percent voting) direct ownership of Pacific Northern Gas Ltd., and a 100 percent indirect ownership of ICG Canada through Westcoast Gas. The acquisition of the utility business of ICG Canada will provide geographic diversification into the central Canadian market and will increase Westcoast's presence at the local distribution level.

3.4.8 Westcoast's major non-utility business will continue to be its 100 percent ownership in Westcoast Petroleum Ltd., which is engaged in the exploration, development and production of gas. In its news release announcing the acquisition of Ranger Oil, Westcoast stated its intention to finance the $75 million transaction by issuing common shares.

Financial Position of Westcoast

3.4.9 Westcoast's pro forma consolidated Balance Sheet as of December 31, 1988 and the consolidated Statement of Operations for the year ended December 31, 1988, incorporating the acquisition of ICG Canada, are presented in Appendix B-5.

3.4.10 The pro forma Balance Sheet presents the financial position of Westcoast as though the acquisition of ICG Canada had occurred on December 31, 1988 and the appropriate adjustments were made to reflect the required financing. The Statement of Operations presents the operating position of Westcoast as though its operations and those of ICG Canada had been combined for the year ending December 31, 1988.

3.4.11 These statements show that following the acquisition, total assets increase by $987 million to $3,150 million. Total shareholders' equity increases by $100 million to $860 million while total liabilities increase by $887 million to $2,290 million.

3.4.12 Operating revenue increases by $749 million to $1,439 million, operating income by $105 million to $285 million, while net income applicable to common shareholders increases by $20 million to $73 million.

3.4.13 The Ranger Oil acquisition further increases Westcoast's consolidated total assets by $75 million and total shareholder equity by a corresponding $75 million.

3.4.14 Westcoast's consolidated Balance Sheet as at December 31, 1989, which reflects both the proposed acquisition of ICG Canada and the purchase of the Ranger Oil shares, is presented in Appendix B-6.

3.4.15 As a result of the acquisition of ICG Canada, Westcoast's financial position, as measured by generally accepted financial ratio analyses, will deteriorate relative to its pre-acquisition position. A comparison of these ratios is shown in Appendix B-7.

3.4.16 Westcoast testified that the increase in debt associated with the acquisition of ICG Canada is within Westcoast's financial capacity. A significant portion of the increased debt relates to the regulated businesses of ICG Canada and is supported by the approved cost of service in each jurisdiction. Westcoast maintained that although its debt to capitalization ratio increases as a result of the proposed acquisition, it is consistent with the amount of leverage associated with the underlying assets and largely regulated nature of these businesses.

3.4.17 Westcoast stated that, as evidenced by the availability of credit to Westcoast and the reaction of the bond rating agencies, it will continue to have the ability to raise the capital required to finance its ongoing affairs. When Westcoast's proposed acquisition was publicly announced in early July 1989, both bond rating agencies conducted a credit analysis of the impact of the transaction on Westcoast. Both agencies concluded that

Westcoast's ratings should be maintained, notwithstanding the increase in debt as a result of the acquisition.

3.4.18 Mr. Brown maintained that Westcoast should be able to continue to raise capital on reasonable terms following the acquisition of ICG Canada. He stated that, since the announcement that it was acquiring ICG Canada, Westcoast had raised $60 million in long-term debt. He also pointed out that the non-recourse nature of the bank loan to Westcoast means that this would not be viewed by current or future Westcoast lenders as a threat to their investment in Westcoast securities.

Comparison of the Financial Positions of Westcoast and Inter-City

3.4.19 On behalf of Board Staff, Dr. Cannon provided an analysis which, in the context of nine accounting-based financial ratios, compared the financial positions of Westcoast and Inter-City, on both a pre-acquisition and post-acquisition basis. The results are reproduced in Appendix B-8.

3.4.20 Dr. Cannon pointed out certain limitations in the interpretation of his comparison figures. In particular, he noted that the values for

Inter-City, which are based on data from its 1988 Annual Report, probably overstate the current riskiness of Inter-City given that during 1989:

(a) Inter-City sold most of its oil and gas assets, thereby reducing its outstanding debt and prospectively improving its net income;

(b) its net earnings for the first nine months of the 1989 year were about 20 percent higher compared to the same period in 1988; and

(c) it sold its $10 million investment in the shares of Turbo Resources at a profit.

3.4.21 Notwithstanding the above caution, Dr. Cannon concluded that:

a) while Inter-City's current financial position will have improved from 1988, it will still remain financially weaker and more exposed than Westcoast if the proposed transaction is not completed;

b) the acquisition of ICG Canada will, at least in the short-run, somewhat weaken the consolidated Westcoast financial position, given the highly-leveraged nature of the proposed transaction; and

c) Westcoast's post-acquisition financial position will still be superior to Inter-City's current position.

3.4.22 It was Dr. Cannon's view that as long as Westcoast finances the $75 million purchase of Ranger Oil entirely with equity, his assessment of Westcoast's overall financial strength and its relative riskiness compared to Inter-City would not change in any material way.

Westcoast Gas/2451417 Manitoba/ICG Canada

3.4.23 Following the completion of the transaction, Westcoast Gas will hold all of the common shares of 2451417 Manitoba which will, in turn, hold all of the common shares of ICG Canada. Neither Westcoast Gas nor 2451417 Manitoba will have any other assets on their balance sheets. ICG Canada will continue to hold all of the outstanding shares of ICG Ontario.

3.4.24 The re-organization of ICG Canada to effect its sale to Westcoast will bring into ICG Canada the assets of certain of the Inter-City group of companies. The largest of these are the assets of the Victoria Gas Company and Canadian

Hydrocarbons Marketing Inc. Certain investments and joint ventures will also be a part of the re-structured ICG Canada. In addition, there will be certain corporate entities which are "shell" companies with negligible assets, such as ICG Brunswick Gas (1985) Inc. and ICG Scotia Gas Limited.

3.4.25 The pro forma consolidated Balance Sheet and Statement of Operations for ICG Canada's 1989 fiscal year reflecting its reorganization are shown in Appendix B-9.

3.5 Business Plans and Corporate Policies of Westcoast Affecting ICG Ontario

3.5.1 This section outlines Westcoast's business plans for ICG Ontario and the corporate policies affecting the management and operations of ICG Ontario on which evidence was presented during the hearing.

Business Plans

3.5.2 Westcoast's views on the acquisition of the utility business of ICG Canada and the role of ICG Ontario included the following:

a) natural gas will be the fuel of choice in the future. Westcoast, therefore, intends to remain active in both the upstream and downstream segments of the industry;

b) the interests of a gas transmission company and a distribution company are consistent in that they both have an incentive to increase the flow of gas in order to lower unit costs;

c) the acquisition of ICG Ontario is a long-term investment. Westcoast has no plans to dispose of all, or any part, of its interest;

d) the acquisition of the utility business of ICG Ontario will neither diminish nor enhance the assurance of gas supply for ICG Ontario or the Province of Ontario; and

e) Westcoast supports the concept of cogeneration which it believes presents significant opportunities in northern Ontario. With respect to the Fort Frances cogeneration project, which was the subject of a hearing under Board File No. E.B.R.L.G. 33, Westcoast stated that it intends to honour its letter of intent regarding equity investment in the project, but will seek to renegotiate the terms of the letter of intent , if the project is not to be held as part of ICG Ontario.

Potential Conflict between Natural Gas for Vehicles and Auto Propane

3.5.3 ICG Ontario has made considerable investments in the development of natural gas for vehicles ("NGV") in Ontario, a business which, to a degree, competes with auto propane. The sale of the propane business of Inter-City to Petro-Canada, which owns about 37 percent of Westcoast, and which itself currently owns eight NGV fueling stations in Ontario, was cited at the hearing as a potential conflict of interest between Westcoast and Petro-Canada.

3.5.4 Westcoast's testimony was that Petro-Canada has no involvement in the day-to-day operations of Westcoast. It was Westcoast's view that its purchase of the utility business of ICG Canada and Petro-Canada's purchase of the propane business, will lead to increased competition in the future, since the two businesses will not be owned by the same parent, as is the case today under Inter-City.

Corporate Policies

3.5.5 A number of Westcoast's corporate policies were reviewed in the hearing in the context of whether any change from the present situation, as a result of Westcoast acquiring control of ICG Ontario, could materially affect ICG's financial and operating position.

Inter-corporate and Affiliate Financial Transactions

3.5.6 Westcoast testified that it does not contemplate that funds raised or held by ICG Ontario will be lent to, or invested in the securities of Westcoast, or the securities of any other subsidiaries of Westcoast. In that regard, Westcoast is willing to adopt the current Inter-City undertaking which governs this.

3.5.7 Westcoast indicated it is agreeable to adopting the undertaking which deals with a commitment for a parent company to retain a level of equity in ICG Ontario, that is considered appropriate by the Board. Westcoast also indicated that it intends to continue the current practice of allowing the utility to issue long-term debt and preference shares in is own name, and that it is also prepared to allow ICG Ontario to raise its own equity if that becomes necessary.

3.5.8 Board Staff proposed that an additional undertaking be given by Westcoast to ensure that the issuance of long-term debt would remain in the domain of the Ontario utility.

Treasury Operations

3.5.9 Currently, ICG Ontario is a participant in a central cash management program administered by Inter-City. The evidence revealed that the program has been beneficial since short-term borrowing needs and short-term investing can be effected more economically. No spread over the program's cost of borrowing is charged to ICG Ontario by Inter-City.

3.5.10 Testimony revealed that Westcoast has not decided whether to include ICG Ontario in a centralized cash management program administered by Westcoast. However, if ICG Ontario were to be included in such a program, Westcoast was not prepared to commit that it would not charge a spread to ICG Ontario in the event that its participation resulted in some potential cost savings to the utility.

3.5.11 Board Staff proposed revised wording to an existing undertaking to ensure that no spread is charged to ICG Ontario in respect of any centralized cash management program administered by Westcoast or its affiliates.

Associate and Affiliate Transactions

3.5.12 Through a number of companies which it owns and controls, Westcoast's businesses extend into a number of areas including natural gas production, distribution and marketing. For reasons of economic efficiency, a number of operating functions will be centralized, much in the same manner as they are today under Inter-City. In addition to the centralized cash management program discussed earlier, such areas include insurance, legal services, and human resources. ICG Ontario's portion of the cost of these services is currently about $0.5 million per year.

3.5.13 The testimony by Westcoast on the subject of associate and affiliate transactions was consistent with Westcoast's general position that the transaction ought to be viewed by the Board as "stepping into the shoes" of Inter-City. Westcoast stated that it was willing to adopt the existing undertakings in relation to transactions among affiliates. Further, Westcoast testified that it will not require ICG Ontario to purchase gas from any Westcoast affiliate companies, since it supports the tendering procedure currently used by ICG Ontario.

3.5.14 In order to cover both purchases and sales by ICG Ontario, Board Staff submitted that the wording of Article 3 of the existing undertaking governing affiliated transactions, should be amended to read "which approval should not be withheld if the transaction is shown to be of benefit to ICG Ontario, or if a purchase takes place at, or below, fair market value or a sale takes place at or above fair market value."

3.5.15 Westcoast testified that the practice of shared services in the areas of insurance, legal services, and human resources, will continue as at present whenever these services are currently centralized at the parent company. Appropriate service fees will therefore be charged to ICG Ontario. Westcoast submitted that any concerns of cross-subsidization associated with these services should be dealt with during ICG Ontario's rate cases.

Management of ICG Ontario

3.5.16 Westcoast testified that it has no plans to effect any material change in the management and operations of ICG Ontario. In that regard, ICG Ontario's capital expenditures, the financing of these expenditures, its head office location, dividend policies, accounting policies, and other material policies, practices and procedures will not change. However, Westcoast also revealed that it will explore economies of scale and efficiencies in business practice.

Personnel

3.5.17 Westcoast testified that it does not have any plans to fill senior management positions at ICG Ontario with persons presently employed by Westcoast. It indicated that it has agreed to assume the employee contracts of all current employees of the utility operations of ICG Ontario and to maintain the current level of employee benefits.

Board of Directors

3.5.18 Westcoast indicated that it will adopt the same undertaking as given by Inter-City and its affiliates to have two non-affiliated Ontario residents as members of ICG Ontario's Board of directors. Currently there are six director positions, five of which have incumbents and one of which is vacant.

3.5.19 Board Staff suggested that the existing undertaking be amended to set non-affiliated representation at 40 percent. This suggestion was made to ensure that there was adequate Ontario representation on the Board of directors, and to try to ensure that this provision would survive, even if Westcoast itself were to be the subject of a corporate takeover or merger.

3.5.20 Westcoast, in argument, opposed this on the basis that it does not provide an adequate level of representation for the 100 percent control of the voting shares of ICG Ontario, which it would hold through its subsidiary affiliate companies.

4.0 BOARD FINDINGS AND CONCLUSIONS

4.1 The Role of the Board and the Scope of its Review

4.1.1 The Reference from the Lieutenant Governor in Council specifically requires the Board to examine and, after holding a public hearing, report on the following matter:

> whether leave of the Lieutenant Governor in Council, as required by Article 2.3 of the undertakings should be provided to Inter-City for the proposed change in control of ICG Canada to be carried out pursuant to the Letter of Understanding dated July 14th, 1989 between Inter-City and Westcoast.

4.1.2 The Board has interpreted that the focus of its examination should be the effects of change in control of ICG Canada, and hence ICG Ontario, from Inter-City to Westcoast and its affiliates. Implicit in the examination of such a change in control is the Board's consideration of the public interest.

4.1.3 In its E.B.R.L.G. 28 Report dated August 2, 1985, regarding the takeover of Union Enterprises Ltd. by Unicorp Canada Corporation, and a change in control of Union Gas Limited, the Board noted that:

> Since ... gas utility franchises are monopolies created in the public interest their ownership is a matter of public concern and has traditionally been subject to approval by the Ontario Energy Board Act. The existing legislation, section 26(2) of the Ontario Energy Board Act requires that notice be given and approval obtained for any person to acquire more than 20 percent of the common shares of a gas utility.

4.1.4 The Board views Article 2.3 of the 1988 Undertakings as an extension of Section 26(2) of the Act and, accordingly, the Board has in this case adopted a similar public interest perspective as in E.B.R.L.G. 28 and previous cases.

4.1.5 The E.B.R.L.G. 28 Report went on to define the public interest as set out in the Procedural Order of February 18, 1985, for that hearing. It also noted the substantively similar definition of the public interest which had been applied in the takeover by Inter-City of Northern and Central Gas Corporation Limited from Norcen. In its E.B.O. 118/119 Decision dated January 16, 1985, the Board defined the public interest as "the benefits and detriments to:

1. present and potential shareholders, investors and Ontario customers of Northern;
2. the Shareholders and Ontario customers of Inter-City;
3. the Ontario communities served by Northern and Inter-City;
4. securing natural gas transmission, storage and distribution at reasonable cost to consumers in Ontario; and
5. the public interest generally."

4.1.6 The Board notes that applying the above definition to the current Inter-City/Westcoast transaction would encompass the interests of the Ontario shareholders of both Inter-City and Westcoast. However, in the E.B.R.L.G. 28 Report, the definition was limited to shareholders of Union Gas Limited, the utility company, and Union Enterprises Ltd, as the immediate holding company. In this case this would be equivalent to the shareholders of ICG Ontario and of ICG Canada. Since these companies are wholly-owned by Inter-City, the Board believes that the interest of the Ontario public shareholders in Inter-City also falls within the comparable definition of the public interest. However, it is less clear to the Board whether the interests of the Ontario public shareholders of Westcoast, who hold about 45 percent of the outstanding common shares of Westcoast, is also a matter which should fall within the scope of its examination.

4.1.7 In its E.B.R.L.G. 30 Report dated November 17, 1986, regarding the assumption of control of The Consumers' Gas Company Ltd. by Gulf Canada Resources Inc., which in turn was controlled by Olympia & York Developments Limited, the Board moved away from an explicit definition of the public interest in favour of "a series of tests or measures against which a proposed transfer of the shares of a regulated utility can be examined".

4.1.8 The Board, in the current proceeding, considers the most appropriate approach to be the application of tests specific to the proposed transaction, with due recognition of the position of the stakeholders that it defines as specifically representing the public interest in the proposed transaction.

4.1.9 The Board considers that the public interest stakeholders in the current case are as follows:

1. the gas customers and communities served by ICG Ontario within its public franchise service areas in Ontario;

2. the shareholders and other investors in the securities of ICG Ontario, ICG Canada and Inter-City who reside in Ontario, including the common shareholders of Inter-City;

3. the Ontario residents employed by ICG Ontario, ICG Canada and Inter-City;

4. the Ontario companies conducting business with ICG Ontario, ICG Canada and Inter-City;

5. the Government of Ontario, by virtue of its concern with the economic well-being of the province;

6. The Ontario Energy Board, as the agency responsible for fixing just and reasonable rates for gas service in the franchise

areas currently served by ICG Ontario; and

7. to some degree, the shareholders and investors in Westcoast and its subsidiaries who reside in Ontario.

4.1.10 The specific matters which the Board considers relevant to public interest in the currently proposed change in control of ICG Ontario are:

1. the financial strength of the entity which directly or indirectly controls ICG Ontario;

2. the financing of the acquisition and its potential effect on the Ontario utility and rates for gas service in Ontario;

3. the business and financial plans of Westcoast and its affiliates for its utility business and operations in Ontario and their impact on the customers of ICG Ontario;

4. the position of the Ontario shareholders and investors in Inter-City, and the ability of Ontario investors to participate in the future as shareholders and

investors in ICG Ontario's gas utility business; and

5. the corporate policies of the new controlling entity, including, but not limited to:

   a) the financing for and capital structure of ICG Ontario

   b) head office location for the Ontario utility

   c) human resources

   d) inter-corporate and affiliate transactions

   e) procurement policies.

4.1.11 The Board, in examining these areas and the interests of the stakeholders, notes that undertakings have been given to the Lieutenant Governor in Council by the companies which control the main regulated gas utilities in Ontario. Undertakings, therefore, are the currently accepted mechanism by which the Government of Ontario attempts to ensure protection of the Ontario public interest, over and beyond the protection currently provided in the Act, by:

(1) extending regulatory control over the gas utility and its corporate parents into matters not specifically encompassed by the Act, but which, nonetheless, are matters which could affect the public interest in Ontario; and

(2) obtaining the agreement or promise of companies which are not subject to the Act, but which control regulated gas utilities in the province, to conduct themselves in the public interest in Ontario.

4.1.12 The Board's role, in summary, is to examine the proposed change in control of ICG Canada and hence, ICG Ontario, from Inter-City to Westcoast. It will focus on areas of corporate finance and operating policies which may affect the interest of stakeholders in the Ontario utility business of ICG Ontario and determine if, on balance, the change of control is desirable. It also must consider the consequences for these stakeholders if the transaction were not to proceed for any reason.

4.1.13 In reaching its findings and recommendations the Board has carefully considered all the evidence on these matters in order to respond to the Reference from the Lieutenant Governor in Council.

4.2 The Financial Strength of Westcoast Compared to Inter-City

4.2.1 Having examined the evidence on the financial position of Inter-City and Westcoast prior to the proposed transaction, and of Westcoast after the proposed transaction, the Board finds that Westcoast, prior to the transaction, is somewhat financially stronger than Inter-City and that the proposed transaction does not diminish this positive conclusion.

4.2.2 For all of the key financial ratios provided in evidence, Westcoast is somewhat better positioned financially than Inter-City. Although financial ratios such as the debt to capitalization ratio and interest coverage are worse after the transaction, because of the additional $300 million in debt being assumed, these ratios are still more favourable than the corresponding values for Inter-City.

4.2.3 This view is also reflected in the evidence with regard to the current and expected future ratings of the securities of Inter-City and Westcoast. The ratings for Westcoast securities are higher than for Inter-City and very similar to the comparable ratings for ICG Ontario.

4.2.4 The Board, therefore, concludes that Westcoast is in a stronger financial position than Inter-City and hence, in this respect, the change in control is in the public interest and should strengthen the utility business being acquired.

4.3 Financing of the Proposed Transaction by Westcoast

4.3.1 The Board is satisfied, based on the evidence, that Westcoast has the financial strength to acquire the utility business of Inter-City and can assume the necessary increased debt, estimated at $300 million, without either materially affecting its ability to issue securities at favourable rates, or requiring a material change in the financial structure of Westcoast's subsidiaries, including ICG Ontario.

4.3.2 Nevertheless, the Board has identified four issues associated with the financial transaction which it believes are important and worthy of further comment:

(1) the assumption, by 2451417 Manitoba, of the promissory note payable by Inter-City to ICG Ontario with a 7.6 percent coupon rate and outstanding principal of $46 million;

(2) the pledging of the shares of ICG Ontario by 2451417 Manitoba to the CIBC as security for the $300 million loan to finance the acquisition transaction;

(3) the payment by ICG Canada of an extraordinary "catch-up" dividend to 2451417 Manitoba, from utility income and retained earnings, to assist in financing the transaction; and

(4) the nature of the $60 million equity issue by Westcoast to provide part of the $100 million of required equity financing.

The Inter-City Note

4.3.3 The background of the Inter-City note and its relationship to the Norcen note have been described in Chapter 3. Since leave of the Lieutenant Governor in Council, upon approval of the Board, would normally be required to assign the note to 2451417 Manitoba, the Board assumes that Inter-City views that the leave of the Lieutenant Governor in Council for the change in control constitutes approval of the overall transaction, including the assignment of the Inter-City note.

4.3.4 In the Board's view the Inter-City note could reasonably be perceived as being related to indebtedness of Norcen to Inter-City and as parallel to the Norcen note which will be redeemed as part of the reorganization of shareholding accompanying the transaction. Certain parties to the hearing felt it would also be reasonable to expect that Inter-City would repay the note and the Board considers that this position is understandable in these circumstances.

4.3.5 The Board recognizes that, from a practical perspective, if ICG Ontario was to receive $46 million from Inter-City for the note, these funds, if not locked in ICG Ontario by trust indentures as claimed by Westcoast, would be available to Westcoast as either a loan or a dividend. In the Board's view, a loan is most likely, because of the respective tax implications. This would be subject to approval by the Lieutenant Governor in Council.

Therefore, the only real issues are (a) the appropriateness of the coupon rate on the note in today's circumstances and (b) the absence of a schedule to the note which governs the payment of principal and interest, which the Board considers to be a deficiency.

4.3.6 Although the coupon rate of 7.6 percent is 400 to 500 basis points lower than current market rates, the Board sees no practical rationale to increase the coupon rate, since the additional interest income to ICG Ontario would be taxable while, on the other hand, Westcoast Gas through its subsidiary 2451417 Manitoba would have the benefit of the pre-tax deduction of interest. In the Board's view, assuming comparable corporate tax rates, this is a "wash". Further, since ICG Ontario has sufficient equity to support its utility business at present, there is, in the Board's view, no other valid reason to require redemption and reissue at a higher coupon rate.

4.3.7 The Board recognizes that the note provides an additional level of comfort namely that, if for any reason the equity level in ICG Ontario should drop below the level deemed appropriate by the Board, a demand could be made on the note to restore the equity balance.

4.3.8 For these practical reasons, the Board finds that Inter-City should not be required to repay the principal of the note to ICG Ontario and recommends that Westcoast be allowed to assume the liabilities and obligations in respect of the note.

4.3.9 The Board strongly believes, however, that although Westcoast has agreed to continue the Inter-City Undertakings with respect to the note, it is nonetheless appropriate that a repayment schedule be added to the legal agreement in respect of the note and executed by 2451417 Manitoba and ICG Ontario at the date of assignment. This, together with the provision of a bank guarantee, should ensure that payments are made as appropriate to ICG Ontario, provided there is no change in the security position of the note.

4.3.10 The Board points out that any change in the security position of the note, or assignment of the note by Westcoast Gas or its affiliates, will be covered by the provisions of Article 4.2 of the undertakings which Westcoast has proposed to give to the Lieutenant Governor in Council. To make this clear the Board will recommend amendments to the proposed wording of Article 5.5 of the new undertakings submitted by Westcoast.

The Pledging of Shares

4.3.11 The pledging of the shares of ICG Ontario, ICG Canada and 2451417 Manitoba to the CIBC (or another chartered bank) as security, is not unusual in the case of such a sizeable non-recourse (to Westcoast) loan.

4.3.12 The Board notes that any bank action to realize on its security may not be covered by Section 26(2) of the Act and that the bank, not being a party to the proposed undertakings, is not bound by the provisions of any undertakings given by Westcoast and its affiliates to the Lieutenant Governor in Council.

4.3.13 The CIBC, in a letter signed by a vice-president of the bank, has acknowledged the need to obtain approval of the Lieutenant Governor in Council to realize on more than 20 percent of the shares of ICG Ontario or on shares constituting control of 2451417 Manitoba or ICG Canada. Absent any evidence to the contrary, the Board must assume that the letter binds the bank in this regard.

4.3.14 The Board is still concerned that the bank could either assume beneficial ownership of 2451417 Manitoba and its subsidiaries, including ICG Ontario, or sell the senior securities of the parent corporations of ICG Ontario, without needing approval of the Lieutenant Governor in Council and thereby effect a change in control of ICG Ontario no less material than the change from Inter-City to Westcoast.

"Catch-up" Dividend

4.3.15 The payment by ICG Canada of an extraordinary "catch-up" dividend from the income of its subsidiary utility companies to finance part of the acquisition is of some concern to the Board. The Board notes that Westcoast's original proposal for such a dividend would have placed ICG Ontario's equity level below that deemed appropriate by the Board for the regulated utility operations.

4.3.16 The Board finds that the public interest requires that Westcoast manage this "catch-up" dividend carefully to ensure sufficient equity in ICG Ontario which will maintain the presently approved equity ratio. It should also allow for capital expansion in the utility operations of ICG Ontario and possibly for the equity for the cogeneration project at Fort Frances, should this remain part of ICG Ontario.

4.3.17 The Board was, therefore, pleased that Westcoast amended its "catch-up" dividend proposal to 50 percent of that originally proposed, which according to the evidence, will keep the equity level of ICG Ontario at the Board approved minimum for the regulated utility.

4.3.18 The Board will recommend that Westcoast be required to inform the Board's Energy Returns Officer ("ERO") of its final plan, as approved by its Board of directors, for the "catch-up" dividend at the time that new undertakings are given by Westcoast to the Lieutenant Governor in Council. This will allow the Board, if necessary, to require Westcoast and its affiliates to remedy any equity deficiency in accordance with the provisions of Article 4.1 of the proposed new Westcoast undertakings.

Equity Issue by Westcoast

4.3.19 As noted earlier, Westcoast will undertake an equity issue to raise an additional $60 million it requires to finance the transaction. A public offering would allow Ontario investors interested in shareholding in ICG Ontario's utility business or its successor, to invest through Westcoast in this business which will comprise about 17 percent of the consolidated Westcoast entity after the transaction.

4.3.20 The Board notes that, subsequent to the hearing, Westcoast announced in the press that Petro-Canada will subscribe to a significant portion of the new issue in order to maintain its current 37 percent holding of the common shares of Westcoast. This will diminish the shares which will be made available to the public through a "sold deal" to three underwiting companies.

4.4 The Financial and Business Plans of Westcoast for its Utility Businesses

4.4.1 Westcoast is predominantly a gas production and utility company, indeed more so than Inter-City with its propane, heating and air conditioning and pipe fabrication businesses.

4.4.2 The Board accepts the evidence of Westcoast that it views the acquisition of ICG Canada and ICG Ontario as a long term investment. Westcoast is familiar with the operation of regulated utilities and testified that it sees itself as continuing and growing in this business area.

4.4.3 Westcoast did not provide any details of its specific financial or business plans for ICG Ontario, and therefore the Board is unable to judge the nature of the long term investment that Westcoast has in mind or the expectations of Westcoast's management and shareholders about the future of its newly acquired utility business.

Shareholding of Westcoast

4.4.4 The Board concludes, based on the evidence presented in the hearing, that the shareholding structure of Westcoast, with Petro-Canada as Westcoast's majority shareholder, together with Westcoast's business interests provide a higher short-term level of comfort in regard to the maintenance and growth of the gas utility business in Ontario compared to the shareholding structure and business interests of Inter-City with Central Capital as its major shareholder.

4.4.5 Some parties to the hearing suggested that there could be a conflict with the newly acquired propane business unit of Petro-Canada. The Board notes the position of Westcoast that it sees itself as vigorously pursuing the development of markets for natural gas for vehicles. The Board also notes that Petro-Canada currently sells NGV at eight of its retail service stations in Ontario.

4.4.6 The Board accepts Westcoast's statements that there will be no conflict between ICG Ontario's NGV business and Petro-Canada's auto propane business. Accordingly the Board concludes that there is no material detriment to the public interest arising from the simultaneous acquisition of an NGV business unit by Westcoast and an auto propane business unit by its majority shareholder, Petro-Canada.

4.5 The Position of the Shareholders of ICG Ontario, ICG Canada and Inter-City

4.5.1 The evidence presented to the Board is that ICG Canada owns all the common voting shares of ICG Ontario, and there are no publicly held common shares of ICG Canada. The shareholding by Ontario investors in ICG Ontario is therefore through ownership of shares in Inter-City. According to the evidence, 46 percent of the common shares in Inter-City are held by Central Capital and its affiliates and the other 54 percent are widely held. Approximately half of these shares are held by Ontario investors. At the time of the hearing Inter-City's common shares were trading at $23 5/8.

4.5.2 The evidence was clear that the funds received by Inter-City from Westcoast for ICG's utility and propane businesses via 2451417 Manitoba will be used in 2 ways:

a) to provide a cash payment of about $21 per share to Inter-City shareholders; and

b) to reduce the indebtedness of the remaining Inter-City company, namely Inter-City Products Corporation.

4.5.3 In addition, the shareholders will receive one share in Inter-City Products and a warrant to buy additional shares on a 4 to 1 exchange basis.

4.5.4 The Board is concerned that this aspect the transaction apparently will not be examined by the Ontario Securities Commission. Therefore only the SEC in the United States, and the Court of Queen's Bench in Manitoba, will be protecting the interests of Inter-City's Ontario shareholders in this regard. The Board also notes the evidence that dissenting minority shareholders may have to resort to time-consuming legal processes to obtain a cash deal rather than the cash-plus-share deal being offered by Inter-City.

4.6 Corporate Policies affecting ICG Ontario

Board of Directors

4.6.1 The Board notes the concern, expressed by certain parties in the hearing, that the composition of the Board of directors of ICG Ontario should continue to reflect the Ontario shareholding and interests in the utility on a fair and reasonable basis.

4.6.2 Currently the Board of ICG Ontario is comprised of six directors of whom two are independent of Inter-City, its majority shareholder, and Inter-City's affiliates.

4.6.3 Westcoast has indicated a willingness to maintain two independent directors, but is opposed to any further reduction in control by the appointment of more non-affiliated directors. The Board understands Westcoast's position, given its 100 percent control of ICG Ontario, and accordingly will recommend that the Board of directors of ICG Ontario, or its successor, be comprised of at least two independent non-affiliated directors who are residents of Ontario.

Treasury Function

4.6.4 A major issue of corporate policy reviewed in the hearing was the treasury functions to be performed by Westcoast on behalf of its subsidiaries. These functions involve short-term investment and borrowing for cash management purposes.

4.6.5 The Board notes that Inter-City, which currently carries out this function on behalf of its subsidiaries, including ICG Ontario, stated that it charges no mark-up or fee above its cost on the funds borrowed, or invested on behalf of these subsidiaries. Rather, it charges an overall management fee to reflect the overhead cost of all inter-corporate and affiliate business conducted by it on behalf of its subsidiaries.

4.6.6 The Board also notes that Westcoast would not commit to a similar policy. It reserved the right to realize a spread on funds provided to its subsidiaries if these funds were obtained at a lower cost than that at which the subsidiary could obtain them. It also implied the right to keep a margin on invested funds, if these were invested at higher returns than the subsidiary could realize.

4.6.7 The Board is of the view that Westcoast should commit to provide funds to ICG Ontario at a cost which is no higher than that at which the utility could obtain them. Equally, the Board believes the utility should be allowed to obtain funds and invest its own cash, if it can do so on more favourable terms than through Westcoast.

4.6.8 The Board observes that the senior securities of ICG Ontario are rated comparably to those of Westcoast. The expert witnesses indicated that there may be good reason to expect that a short-term commercial paper rate for ICG Ontario would be similar to that for Westcoast. However, any spread would be significant and material to the cost of service of ICG Ontario, given the significant amount of short-term debt and cash management transactions of its utility operations.

4.6.9 The Board will recommend that the principle of providing funds, at no higher cost, or investing funds at rates no lower, than ICG Ontario should be an undertaking from Westcoast and its affiliates. The Board will expect that expert testimony will be presented in future rate cases on the issues of the relative cost of short-term funds and the return on short-term invested cash to Westcoast and to the Ontario utility. This will assist the Board in determining the appropriate cost of such funds for rate-making purposes.

Head Office and Human Resources Matters

4.6.10 The Board finds, based on the evidence, that there are no apparent issues in respect of either the location of the head office of the Ontario utility or the position of personnel currently employed by ICG Ontario. Westcoast has agreed to an undertaking, identical to the current one, that it will maintain the head office in Ontario. Westcoast also testified that it would assume the employment contracts of all ICG Ontario personnel. The Board interprets this as a guarantee of fair treatment rather than a guarantee of continued employment for all personnel and recognizes that there may be some future rationalization of head office functions between Westcoast and its subsidiaries in the interest of efficiency and productivity.

Inter-Corporate and Affiliate transactions

4.6.11 The Board finds that the wording change proposed by Board Staff in respect of Article 3.0 of the existing Undertakings is reasonable, since both purchases and sales by ICG Ontario could be undertaken in a manner not in the public interest. The omission of sales in the existing Undertakings may be due to oversight, or the wording may have reflected the prevailing circumstances adequately at the time the Undertakings were executed. Accordingly the Board recommends inclusion of the amended wording in Article 3.0 of the proposed new undertakings.

Public Shareholding

4.6.12 The Board has expressed its hope that Ontario investors will have an opportunity to subscribe to the new $60 million common equity issue planned by Westcoast. However, the Board does not feel that the proposal by some parties to require a public float of the common shares of ICG Ontario is realistic, given the shareholding structure after the Westcoast acquisition (See Figure 5). Accordingly, the Board makes no recommendation in this regard.

The Boise Cascade Penalty Payment

4.6.13 Although of minor consequence in the hearing, the Board finds that the appropriate accounting for any penalty payable by Boise Cascade Canada to ICG Canada and ICG Ontario, in the event of a shut down of its Fort Frances mill, should be reviewed by the Board at the time of the transaction, or in ICG Ontario's main rate case following such an event. Accordingly, the Board recommends amended wording for Article 5.2 of the proposed new undertakings to give effect to this requirement.

4.7 Summary of Board Findings and Conclusions Regarding the Proposed Change in Control of ICG Ontario

4.7.1 The Board finds that Westcoast is a stronger Company financially than Inter-City and has the capacity to acquire the utility business of Inter-City without materially changing Westcoast's ability to raise capital in future, at least under market conditions similar to those prevailing at the time of the hearing.

4.7.2 The Board has noted a few concerns about certain aspects of the financial transaction, specifically the assumption by Westcoast of an existing note due to ICG Ontario from Inter-City, the pledging of shares to the CIBC and the proposal for an extraordinary "catch-up" dividend. These concerns can be redressed with the cooperation of the parties involved and the Board has established recommended conditions of approval in this regard.

4.7.3 The Board has concerns about the position of the minority shareholders of Inter-City, some 50 percent of whom are Ontario residents. However, the Board does not believe that its mandate extends to redressing this issue.

4.7.4 The Board concludes that the willingness of Westcoast to execute a set of undertakings similar in content to those of Inter-City, is a positive indication of Westcoast's long-term interest in the Ontario gas utility business. The Board finds that certain modifications are required to Westcoast's proposed undertakings to cover its previously-noted concerns in the area of inter-corporate and affiliate transactions.

4.7.5 The Board finds that, overall, the proposed change of control of ICG Canada and, indirectly, ICG Ontario, is in the public interest.

4.7.6 Board recommended Undertakings and Conditions of Approval are dealt with in Chapter 5 and set out in Appendix A.

5.0 WESTCOAST UNDERTAKINGS AND BOARD RECOMMENDATIONS

5.1 Introduction

5.1.1 This chapter reviews the need for new undertakings to be given by Westcoast and its affiliates to the Lieutenant Governor in Council, in order to protect the Ontario public interest in certain matters not covered by the Act or other provincial legislation, and in order to obtain the agreement of Westcoast and its affiliates, which are not incorporated in Ontario, to operate in accordance with the public interest in Ontario.

5.1.2 The hearing utilized, as its point of reference, the 1988 Undertakings given to the Lieutenant Governor in Council by Inter-City and its affiliates. These are up-to-date and cover a number of historic issues which will continue after the change in control from Inter-City to Westcoast.

5.1.3 The focus of evidence was on the proposal by Westcoast to "step into the shoes" of Inter-City in regard to undertakings thus assuming the major part of the 1988 Undertakings.

In summarizing the evidence, the Board has concentrated on those areas which were issues in the hearing and on which the Board has made its findings in Chapter 4.

Background to the 1988 Undertakings

5.1.4 ICG Ontario, prior to its acquisition in 1985 by Inter-city, was known as Northern and Central Gas Corporation Limited, an Ontario corporation regulated by the Board. The proposed acquisition was reviewed by the Board under Section 26 of the Act, and, in its Report to the Lieutenant Governor in Council, the Board recommended that the transaction be approved, subject to the acceptance by the new parent of certain undertakings which the Board considered necessary for the transaction to meet certain requirements viewed to be in the public interest.

5.1.5 The undertakings were required because certain binding commitments were, in the Board's opinion, essential to ensure that the utility would: "continue to meet its obligations to serve present and future customers without unreasonable conditions of service and rates caused by the sale of its shares," and to ensure that the utility can "maintain itself in a sound financial condition so that the public can continue to be served in the short and the long term, in a manner which will contribute to the public's general well being." The undertakings which had been agreed to in 1985 were renegotiated and updated in 1988.

5.2 Westcoast's Position on New Undertakings

5.2.1 In its prefiled evidence, Westcoast stated:

> Although Westcoast has committed to ICG to give undertakings concerning ICG Canada and ICG Ontario which, although not necessarily identical to, are in the aggregate no more onerous than the undertakings dated June 16, 1988 given by ICG, ICG Canada and ICG Ontario to the Lieutenant Governor in Council, Westcoast believes that certain of those undertakings could properly be amended to take account of Westcoast's circumstances or to simplify the administration of the undertakings for Westcoast and the Ontario Energy Board.

5.2.2 During the course of the hearing Westcoast's Chief Executive Officer confirmed that

Westcoast is "prepared to step into the shoes of Inter-City in regard to the undertakings". The Board has not examined in detail the appropriateness of the existing Undertakings but rather considered only necessary modifications to these.

5.2.3 The need for, and the specific nature of, appropriate undertakings relating to Westcoast's acquisition of ICG Ontario received substantial attention during the hearing. There was a consensus among the parties that the Board has the power to recommend modifications to such undertakings as it deems proper under the new circumstances.

5.2.4 Counsel to Board Staff noted that "(Undertakings) provide a useful monitor and control on the ownership, purchase and sale and financial operation of the Ontario utilities in the public interest. They are, in effect, private contracts between the utilities and the Lieutenant Governor in Council, and they reduce the concerns arising from the change in ownership."

5.2.5 Westcoast, as an Appendix to its final Reply Argument, submitted a set of proposed undertakings which Westcoast and its affiliates, who will control ICG Ontario, would be prepared to give to the Lieutenant Governor in Council, in return for leave for the change in control of ICG Canada and, indirectly, of ICG Ontario.

5.3 Board Findings

5.3.1 Although, in the past, the Board has been actively involved in the development of appropriate undertakings, it is beginning to have some reservations thereto. These reservations are related, on the one hand, to concerns about the effectiveness of undertakings in protecting the public interest and, on the other hand, to their intrusion into the business affairs of non-utility companies.

5.3.2 The current undertakings of all three of Ontario's major gas utilities appear to the Board to be both a substitute for, and a supplement to, the Act. The Board believes that such undertakings, which are only promises to conduct business in a manner acceptable to the Lieutenant Governor in Council, should only be a supplement to effective provincial legislation designed to protect the public interest.

5.3.3 In expressing this view, the Board notes that there are many generic features to the undertakings of the three major gas utilities and the parent corporations and affiliates which control them. These include diversification, inter-corporate and affiliate transactions and change in control.

5.3.4 The Board believes that if the Government wishes to exercise control over these matters affecting regulated gas utility companies, legislative amendments and/or regulations under the Act would be a more appropriate way to protect the public interest in such generic matters.

5.3.5 Undertakings should thus clearly supplement the legislation, but only to the degree necessary to further protect the public interest.

5.3.6 The Board recognizes, however, that under the 'status quo', undertakings are the accepted way for the Government and companies who control Ontario gas distribution utilities, to agree on principles designed to protect the public interest in matters not covered by statute or regulation. Accordingly, it will recommend a set of undertakings which should be given to the Lieutenant Governor in Council by Westcoast and its affiliates which will control ICG Ontario or its successor utility company.

Issues and Undertakings

5.3.7 Based on its findings in respect of the proposed change in control of ICG Ontario, the Board has concluded that there are several relatively minor issues which, while not affecting the overall conclusion that the Westcoast acquisition is in the public interest, would, if dealt with appropriately by Westcoast and its affiliates, by reducing certain potential detriments, ensure the public interest is properly served by the change in control.

5.3.8 The Board is not convinced that, as several parties to the hearing have suggested, certain transaction-related matters should be addressed by amendments to the undertakings to be given by Westcoast and its affiliates to the Lieutenant Governor in Council.

5.3.9 The Board is of the opinion that these issues should be redressed by amendments to the proposed Westcoast undertakings only if no other reasonable mechanism exists to achieve the protection of the public interest. Accordingly, the Board recommends a set of Conditions of Approval, as alternatives to amended undertakings, wherever possible. However, if Westcoast and its affiliates cannot satisfy the Lieutenant Governor in Council, upon advice from the Board, that it will comply with these conditions, a new or amended undertaking could be required from Westcoast, prior to leave being granted to Inter-City under Article 2.3 of the 1988 Undertakings.

5.3.10 The Board has, therefore, recommended amendments to the proposed undertakings submitted by Westcoast, only to the degree necessary to ensure protection of the public interest in ongoing business matters. It has recommended other conditions of Approval as appropriate to address transaction related issues.

5.3.11 The transaction related issues, identified and commented on by the Board as being material to the Ontario public interest and the Board's findings on how to address the protection of the public interest, are set out in the following paragraphs.

5.3.12 The Inter-City note to be assumed by a Westcoast Affiliate

The issues related to this transaction are:

a) a future assignment by 2451417 Manitoba;

b) the repayment schedule;

c) a guarantee of the obligations of 2451417 Manitoba; and

d) the priority of the note relative to other obligations of 2451417 Manitoba.

The Board's findings on these issues are:

a) The Board believes that Article 4.1 of the undertakings proposed to be given to the Lieutenant Governor in Council by Westcoast (Appendix A-1), covers assignment of the note to any other party, or subordination of the note by 2451417 Manitoba. This is sufficiently important, however, that acceptance of, and compliance with, the requirement for dispensation of the Lieutenant Governor in Council for such assignment should be provided in a new undertaking Article 5.5(d).

b) The Board has previously concluded that a repayment schedule should be added to the note when this is assigned to 2451417 Manitoba. Accordingly, Article 5.5(a) of the proposed Westcoast undertakings should be deleted when this is done.

c) A guarantee of the obligations of 2451417 Manitoba in respect of the note is necessary, since this company has no assets other than the shares of ICG Canada (or its successor) and no income other than the dividend income from ICG Canada and its subsidiary utilities (or their successors). Therefore, either a bank guarantee by the CIBC or other bank, or the corporate guarantee of Westcoast is required. Westcoast has proposed a bank guarantee in its proposed undertakings (Appendix A-1 Article 5.5(c)) and this, in the Board's view, is an acceptable solution, provided such a guarantee is in place before the note is assigned to 2451417 Manitoba.

d) The priority of the ICG Ontario note should clearly be established in covenants with holders of the securities of 2451417 Manitoba. To achieve this, the Board will require filing of necessary information, such as trust indenture clauses with the Board's ERO, to allow the Board to establish the appropriate priority of the note at the date of assignment. A change in the position of the note through, for example, subordination, would require dispensation by the Lieutenant Governor in

Council under Article 5.5 of the proposed Westcoast Undertakings as amended by the Board as part of Article 5.5(d).

5.3.13 The Pledging of the Shares of ICG Ontario

The issue related to the pledge of shares is:

> Agreement by the CIBC to be bound by the provisions of Section 26(2) of the Act and Article 2.3 of Westcoast's proposed undertakings.

The Board's finding in this matter is:

> The Board has previously concluded that, aside from a direct sale of the shares of ICG Ontario, any action by the bank resulting from the pledging of these shares is not covered by the Act or undertakings. However, it has made no recommendation in this regard due to the potentially intrusive nature of any effective action to redress this issue.

5.3.14 The "Catch-up" Dividend

The concern related to the "catch-up" dividend is:

> Maintaining the equity ratio of ICG

Ontario at a level deemed appropriate for the regulated gas utility.

The Board's Finding on this matter is that:

> The provisions of Article 4.1 of the proposed Westcoast undertakings alone are insufficient to protect the public interest in respect of the "catch-up" dividend from ICG Ontario, which will be used by Westcoast and its affiliates to partially finance the transaction leading to a change in control of ICG Ontario. Rather than amend Article 4.1 to deal with such a "one shot" situation, the Board recommends that, as a condition of approval, Westcoast agree to provide details of the "catch-up" dividend and its impact on ICG Ontario, to the Board's Energy Returns Officer, prior to giving new undertakings to the Lieutenant Governor in Council.

5.3.15 The provision of the information contemplated in the previous paragraphs 5.3.12 to 5.3.14 to the Board's ERO should be a condition precedent for the granting of the leave requested by Inter-City from the Lieutenant Governor in Council.

The Treasury Function and Cash Management

5.3.16 The Board has concluded in Chapter 4 that the cost of short-term debt and revenue from the short-term cash investments of ICG Ontario (or its successor) are material to the utility's cost of service and the public interest requires that if Westcoast provides such funds to, or invests cash for, ICG Ontario, it should do so on a fair and equitable basis.

5.3.17 The Board has accepted the principle as expressed by Westcoast in the hearing, that the costs and revenues to ICG Ontario should be respectively no higher and no less than it would realize on a stand-alone basis. To ensure that this principle is executed in practice the Board recommends two actions: The first action is embodiment of the principle in Article 4.2 of the proposed undertakings by addition of the words:

> "provided that, if such a cash management function is undertaken by Westcoast or its affiliates, these companies will provide funds to, and invest cash on behalf of, ICG Ontario or its successor company, at a cost which is no higher than that at which ICG Ontario or its successor could raise such funds and at rates which are no lower than those ICG Ontario could realize on its own short term investments".

The second action is to provide the Board with sufficient evidence on ICG Ontario's likely cost of short-term funds and revenue from short-term cash investments. The Board will, in future rate cases, require ICG Ontario to provide a credit rating for short-term commercial paper and/or expert testimony on its stand-alone costs of undertaking its own cash management program.

5.3.18 Other minor wording changes as noted in Chapter 4 are recommended by the Board in respect of Articles 3.0 and 5.2 of the undertakings proposed by Westcoast. These are to address minor concerns in the areas of Affiliate Transactions and the Boise Cascade Agreement.

5.4 Board Recommendations Regarding the Change in Control of ICG Ontario, Undertakings and Conditions of Approval

5.4.1 The Board recommends that the Lieutenant Governor in Council grant Inter-City Gas Corporation the requested leave in respect of Article 2.3 of the 1988 Undertakings for a change in control of ICG Canada and hence ICG Ontario, as provided in the Letter of Understanding, dated July 4, 1989 and the Arrangement Agreement dated December 11, 1989, between

Inter-City Gas Corporation and Westcoast Energy Inc..

5.4.2 The Board recommends that as a condition precedent to this leave, Westcoast and its affiliate companies which will control ICG Ontario, execute a set of revised undertakings to replace those given to the Lieutenant Governor in Council in 1988 by Inter-City Gas Corporation and its affiliates, in a form, and of a content, satisfactory to the Lieutenant Governor in Council.

5.4.3 The Board has included, as Appendix A-1 to this Report, a recommended set of Undertakings which should be given by Westcoast and its affiliates which will control ICG Ontario or its successor, as a condition precedent to the granting of leave by the Lieutenant Governor in Council.

5.4.4 The Board has highlighted its suggested amendments, to the undertakings proposed by Westcoast which arise from the Board's Findings.

5.4.5 The Board recommends that as a condition of the leave being granted, Westcoast and its affiliates should comply with certain Conditions of Approval which cover matters in the public interest, not encompassed by the giving of new undertakings by Westcoast and its affiliates,to the Lieutenant Governor in Council.

5.4.6 The Board recommends as part of the Conditions of Approval, that certain approvals set out in the Arrangement Agreement, which are conditions precedent to the closing of the Westcoast acquisition, should also be conditions precedent to the granting of the requested leave by the Lieutenant Governor in Council. The most important of these to the Ontario public interest are the approvals of:

(a) the SEC in the U.S.A.;

(b) the Manitoba Court; and

(c) the shareholders of Inter-City.

5.4.7 In Appendix A-2, the Board has provided a set of recommended Conditions of Approval which should be fulfilled by Westcoast, as conditions precedent to the Lieutenant Governor in Council granting the leave requested by Inter-City in respect of the proposed change in control of ICG Ontario to Westcoast.

5.4.8 The Board recommends that upon the new undertakings having been given by Westcoast and its affiliates to the Lieutenant Governor in Council, and the Conditions of Approval having been satisfied, Inter-City and its affiliates be formally released from the 1988 Undertakings.

6.0 COSTS AND COMPLETION OF THE PROCEEDINGS

6.1 COSTS

6.1.1 Section 28 of the Act empowers the Board to award costs. The Board's E.B.O. 116 Report of June 12, 1985, sets out considerations by which the Board will be guided as a general rule in the exercise of its discretion to award costs to intervenors. Awards may be made to an intervenor who:

(a) has or represents a substantial interest in the proceeding to the extent that the intervenor, or those it represents, will be affected beneficially or adversely by the outcome;

(b) participates responsibly in the proceeding; and

(c) contributes to a better understanding of the issues by the Board.

6.1.2 Only AMO requested that it should be awarded its costs in the proceeding.

Board Findings

6.1.3 AMO participated responsibly in the proceeding although its intervention was quite narrowly focussed on the issues related to the Inter-City note and the pledge of shares. The argument submitted by AMO was found to be relevant and helpful to the Board. Accordingly, the Board finds that AMO is entitled to 70 percent of its reasonably incurred costs and that Inter-City should pay these costs following review by the Board's Assessment Officer.

6.1.4 The Board's costs shall be paid by the Applicant Inter-City, upon receipt of the Board's Cost Order and invoice.

6.1.5 AMO shall submit its claim for costs to the Board, with a copy to Inter-City, within 15 working days of the public release of the Board's Report herein.

6.2 COMPLETION OF THE PROCEEDINGS

6.2.1 The Board herewith submits its Report and Recommendations to the Lieutenant Governor in Council, in accordance with the requirements of the Reference under Order-in-Council 2439/89 dated October 12, 1989.

6.2.2 The Board will, in due course, issue its Cost Orders.

APPENDIX A

A-1 Board Recommended Westcoast Undertakings

A-2 Board Recommended Conditions for the Formal Granting of Leave for the Change in Control of ICG Ontario

APPENDIX A-1

The Board has used the proposed undertakings submitted by Westcoast in its Reply Argument as the basis of these recommended undertakings. Citations submitted by Counsel to Inter-City have been substituted for those in Westcoast's proposal and the reference to section 7.27(7) of the Consolidated Deed of Trust and Mortgage of Northern & Central Gas Corporation Limited (now ICG Ontario), in Article 4.2 has been expanded.

The Board has highlighted the changes to Westcoast's proposal which arise directly from the findings and recommendations of its E.B.R.L.G. 34 Report herein.

UNDERTAKINGS OF ICG UTILITIES (ONTARIO) LTD ICG UTILITIES (CANADA) LTD., WESTCOAST ENERGY INC., WESTCOAST GAS INC. AND 2451417 Manitoba Ltd.

TO: His Honour The Lieutenant Governor in Council
for the Province of Ontario

WHEREAS common shareholders of Inter-City Gas Corporation ("Inter-City") will, as part of the transaction referred to below, acquire all the issued and outstanding voting shares of 2451417 Manitoba Ltd.;

AND WHEREAS 2451417 Manitoba Ltd. will, as part of the transaction referred to above, acquire all of the issued and outstanding voting shares of ICG Utilities (Canada) Ltd. ("ICG Canada");

AND WHEREAS ICG Canada owns all the issued an outstanding voting shares of ICG Utilities (Ontario) Ltd ("ICG Ontario");

AND WHEREAS Inter-City has entered into a written Arrangement Agreement dated December 11, 1989 with, inter alia, Westcoast Energy Inc., ("Westcoast"), for the sale to a subsidiary of Westcoast, namely Westcoast Gas Inc. ("Westcoast Gas"), inter alia, of the

Ontario utility business owned by Inter-City through ICG Ontario whereby Westcoast through Westcoast Gas will acquire control over ICG Ontario by purchasing all the issued and outstanding voting shares of 2451417 Manitoba Ltd.;

AND WHEREAS Westcoast Energy owns all the issued and outstanding voting shares of Westcoast Gas;

AND WHEREAS Westcoast Gas, as part of the transaction referred to above, will acquire all of the voting shares of 2451417 Manitoba Ltd. from the common shareholders of Inter-City;

AND WHEREAS Inter-City, ICG Canada and ICG Ontario gave Undertakings to the Lieutenant Governor in Council dated June 16, 1988 relating to, inter alia, changes of control of ICG Ontario and other matters relating to the operation of the Ontario utility owned by ICG Ontario;

AND WHEREAS the Ontario Energy Board held a public hearing on the proposed acquisition of control of ICG Canada by Westcoast and submitted a report and opinion with respect thereto to the Lieutenant Governor in Council on January 31, 1990;

NOW THEREFORE in consideration of the Lieutenant Governor in Council granting leave to permit the said acquisition by Westcoast and Westcoast Gas of

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the control of ICG Canada through 2451417 Manitoba Ltd., ICG CANADA, ICG ONTARIO, WESTCOAST, WESTCOAST GAS AND 2451417 Manitoba Ltd. do hereby agree to the following undertakings to the extent that any one or all of them can act, refrain from acting or exercise control over the actions of others in order to cause compliance with an undertaking or to prevent a breach of an undertaking:

1. Definitions

1.1 "affiliated transaction" shall be defined as a sale of goods, services or information, including gas purchases, or the conferring of a benefit between ICG Ontario and any associate or affiliate of ICG Ontario;

1.2 "affiliate" shall be defined as in paragraph 1(1)2 and subsection 1(4) of the Business Corporations Act, 1982;

1.3 "associate" shall be defined as in paragraph 1(1)4 of the Business Corporations Act, 1982;

1.4 "market value of voting shares" shall mean 115 percent of the book value of such shares or the market value if there exists a public float of voting common shares in excess of 20 percent of the total of voting common shares;

1.5 **"ICG Ontario" shall be defined as the body corporate known as ICG Utilities (Ontario) Ltd or its successor company, which contains a regulated gas utility business with franchises in northern, central and eastern Ontario.**

1.6 "related party" shall be defined as in section 3840 of the CICA Handbook.

2. Independence of ICG Ontario

2.1 Board of Directors of ICG Ontario

ICG Ontario will maintain on its Board of Directors at least two residents of its franchise area who, at the time of their election or appointment, have no pecuniary interest in Westcoast **or its affiliates**, and no business connection with Westcoast, **its affiliates**, ICG Ontario or any other natural gas distribution or transmission company.

2.2 Head Office of ICG Ontario

ICG Ontario's head office and main operating office shall be maintained in Ontario.

2.3 Change in Control

No action shall be taken by the parties hereto without first obtaining leave of the Lieutenant Governor in Council, that is intended to result in any person acquiring:

(a) more than 20 percent of the voting shares of ICG Ontario, or

(b) control of any person that owns or controls, directly or indirectly, more than 20 percent of the voting shares of ICG Ontario where such voting shares of ICG Ontario constitute a significant asset of such person.

The voting shares of ICG Ontario shall be deemed to constitute a "significant asset of such person" where the market value of the voting shares of ICG Ontario beneficially owned or controlled, directly or indirectly, constitutes 20 percent of the aggregate book value of the total assets of such person determined on a consolidated basis in accordance with generally accepted accounting principles.

Application for leave as required above, shall be made to the Ontario Energy Board.

3. Affiliated Transactions

Other than the sale and the transportation of gas by ICG Ontario, any affiliated transaction aggregating $100,000 or more annually shall require prior approval of the Ontario Energy Board, which approval shall not be withheld if **a purchase** is shown to be of benefit to ICG Ontario or takes place at or below fair market value **or if a sale takes place at, or above, fair market value.**

It shall not constitute a violation of this undertaking if ICG Ontario or the associate or affiliate did not know or could not have been reasonably expected to know that a transaction was an affiliated transaction.

4. Financial Integrity of ICG Ontario

4.1 Maintenance of Common Equity

There shall be retained in ICG Ontario such portion of the earnings of ICG Ontario as may be appropriate from time to time for retention by a regulated gas distribution utility, and to the extent that at any time such retained earnings of ICG Ontario are not sufficient to maintain the equity of ICG Ontario at the level approved or deemed appropriate by the Ontario

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Energy Board at a public hearing, ICG Ontario shall raise, **and/or Westcoast and/or its affiliates** shall provide, either directly or indirectly, sufficient additional equity capital for that purpose within 90 days (or such longer period as may be directed by the Ontario Energy Board), provided that if **Westcoast and/or its affiliates** provide all or part of such additional capital it shall do so on terms no less favourable to ICG Ontario as ICG Ontario could obtain directly in the capital market.

4.2 Intercorporate Indebtedness, Guarantees and Investments

ICG Ontario shall not hereafter loan or advance funds to or guarantee or become responsible for the indebtedness or obligations of any person, firm or affiliate, associate or subsidiary of ICG Ontario that is not regulated under the *Ontario Energy Board Act*, without prior approval of the Ontario Energy Board subject to the exceptions noted below.

ICG Ontario shall not hereafter acquire or pay for securities of any person, firm or affiliate, associate or subsidiary of ICG Ontario that is not regulated under the *Ontario Energy Board Act*, without the prior approval of

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the Ontario Energy Board, subject to the following exceptions:

Exception 1

This Undertaking is subject to Section 7.27(7) of the Consolidated Deed of Trust and Mortgage of Northern and Central Gas Corporation Limited (now ICG Ontario) to Montreal Trust Company, as Trustee, dated as of June 1, 1958, as amended to July 15, 1968, to expire May 1, 1998 (the "Deed") which sets out that:

> 7.27 (7) the Company (ICG Ontario) will not suffer or permit any Utility Subsidiary to incur or otherwise become or be liable in respect of any indebtedness, except: (a) unsubordinated indebtedness to the Company; (b) unsecured current indebtedness, as hereinafter defined, which shall have been incurred in the ordinary course of business and not as a result of borrowing; (c) indebtedness represented by unpaid dividends; (d) indebtedness secured by liens as permitted by, and within the limits provided in, Section 7.13 hereof; (e) in the case of QNG, debentures in principal amount not exceeding $19,000,000 and maturing in 1985; (f) in the case of Winnipeg (GWG), debentures in principal amount not exceeding $2,050,000 maturing in 1979 and in principal amount not exceeding $1,695,500 maturing in 1980; and (g) in the case of any Mortgaged Utility Subsidiary which becomes such after April 1, 1968, funded indebtedness of such

Mortgaged Utility Subsidiary included in and outstanding on the date of the Officers' Certificate delivered to the Trustee pursuant to the definition of Mortgaged Utility Subsidiary in Article 1 hereof upon the election of the Company to treat such Subsidiary as a Mortgaged Utility Subsidiary;

Exception 2

This Undertaking does not cover or include normal treasury functions, such as a cash management program similar to the one which ICG Ontario has participated in with Inter-City and its subsidiaries, **provided that, if such a cash management function is undertaken by Westcoast, or its affiliates, these companies will provide funds to, or invest cash for, ICG Ontario or its successor company, at a cost which is no higher than that at which ICG Ontario or its successor could raise such funds and at rates which are no lower than those ICG Ontario could realize on its own short-term investments.**

5.0 Regulatory Issues

5.1 Acquisition Costs

Westcoast shall be solely responsible for Westcoast's costs incurred in the acquisition of control of ICG Canada by Westcoast.

5.2 Assignment of the Boise Cascade Agreement

In the event that Boise Cascade Corporation is obliged to pay the penalty set forth in the Boise Cascade Agreement dated May 2, 1969, ICG Canada (and the companies which it controls) and ICG Ontario will allocate the monies in accordance with acceptable accounting principles, **and subject to the approval of the Ontario Energy Board.**

5.3 Management Costs

There shall be a fair and appropriate allocation amongst the parties of the shared or joint management, administrative and overhead costs.

5.4 Diversification and Reorganization

(a) ICG Ontario itself, or through a person it controls, shall not hereafter engage or invest in any activity that is not subject to the regulation of the Ontario Energy Board.

(b) Westcoast, ICG Canada and ICG Ontario shall make reasonable efforts to accomplish a restructuring of ICG Ontario such that there will result a corporation whose assets, liabilities and activities relate only to the regulated natural gas distribution business in Ontario.

(c) A signatory may, from time to time, apply to the Ontario Energy Board for dispensation from compliance with sub-paragraphs (a) and (b) hereof.

5.5 Inter-City Note

(a) Westcoast will cause payments to be made when due under a promissory note issued by Inter-City and payable to ICG Ontario (the "Inter-City Note") including principal installments of $4,148,000 on December 31 in each year 1990 to 1999 inclusive, or on such accelerated basis as ICG Ontario and Westcoast may agree upon.

(b) To provide assurance that the payments as contemplated in (a) will be made, unless the Ontario Energy Board otherwise approves, Westcoast shall cause to be maintained, without expense to ICG Ontario, a letter of credit or guarantee issued by a Canadian chartered bank to support the Inter-City Note, the same to be maintained in force for so long as the Inter-City Note is held, directly or indirectly, by the corporation which operates the regulated natural gas distribution business in Ontario, presently operated by ICG Ontario.

(c) Westcoast and ICG Ontario shall inform the Ontario Energy Board, through the Board's Energy Returns Officer, of the making of each payment contemplated in (a) hereof.

(d) **Westcoast or its affiliates shall not assign the Inter-City note, or affect the priority of the note as a liability of 2451417 Manitoba, without the approval of the Ontario Energy Board.**

6. Public Hearing

Any approval of the Board provided for herein may be granted with or without a public hearing as the Ontario Energy Board may determine.

7. Status of Undertakings

These undertakings supersede, replace and are in substitution for all prior undertakings given by ICG Ontario, ICG Canada, Inter-City and Westcoast to the Lieutenant Governor in Council.

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8. **Enforcement**

The parties hereto agree to be bound by these undertakings.

These undertakings are terms and conditions of the leave and approval granted by the Lieutenant Governor in Council.

9. **Effective Date**

These undertakings become effective on April 2, 1990 (or as amended) being the closing date set out in the Arrangement Agreement, dated December 11, 1989 between Westcoast and Inter-City.

ICG Utilities (Ontario) Ltd

ICG Utilities (Canada) Ltd.

2451417 Manitoba Ltd.

Westcoast Gas Inc.

Westcoast Energy Inc.

APPENDIX A-2

Board Recommended Conditions for the Formal Granting of Leave of the Lieutenant Governor In Council for the Change in Control of ICG Ontario

1. The following Approvals required, as conditions precedent to the closing of the Arrangement Agreement, dated December 11, 1989, as set out in paragraph 11 thereof, shall have been obtained by Inter-City and its affiliates and by Westcoast and its affiliates:

   - Securities Exchange Commission
   - Manitoba Court of Queen's Bench
   - Inter-City Shareholders

2. The recommended new undertakings, proposed by Westcoast, as amended by the Ontario Energy

Board, shall be agreed upon and given formally to the Lieutenant Governor to become effective on the closing date of Inter-City/Westcoast Arrangement Agreement.

3. With regard to the Inter-City note payable to ICG Ontario, which is being assigned to 2451417 Manitoba, Westcoast and its affiliates shall in writing satisfy the Energy Returns Officer of the Ontario Energy Board that they have:

a) obtained a bank guarantee for the obligations of 2451417 Manitoba;

b) attached a loan repayment schedule to the loan agreement;

c) established the priority of the note relative to other securities and obligations of 2451417 Manitoba.

4. Westcoast and its affiliates shall have submitted to the Energy Returns Officer of the Ontario Energy Board the final plan, as approved by the appropriate Board(s) of directors for the payment of an extraordinary "catch-up" dividend by ICG Ontario, as part of the financing of the Inter-City/Westcoast arrangement.

5. These Conditions shall be met prior to the April 2, 1990 closing date set out in the Inter-City/Westcoast Arrangement Agreement dated December 11, 1989 (or as amended).

APPENDIX B.

Consolidated Financial Statements & Financial Ratios

B-1 Inter-City 1988
B-2 ICG Ontario 1988
B-3 Westcoast 1988
B-4 Proforma ICG Ontario 1989
B-5 Westcoast Post Acquisition 1988
B-6 Proforma Westcoast 1989
B-7 Comparison of Financial Position - Westcoast Pre and Post Acquisition
B-8 Comparison of Financial Position - Westcoast vs Inter-City
B-9 ICG Canada Post Acquisition

INTER-CITY GAS CORPORATION
CONSOLIDATED BALANCE SHEET
December 31, 1988
($ million)

ASSETS	
Fixed Assets	1,406.9
Investments	171.3
Deferred Charges	19.0
Current Assets	523.6
	2,120.8
LIABILITIES	
Long-Term Debt	785.3
Advances	8.6
Aid of Construction	113.3
Deferred Income Taxes	93.3
Minority Interest	29.6
	1,030.1
Current Liabilities	
Bank Indebtedness	261.4
Other Liabilities	273.7
Long-Term Debt - Current	64.0
	599.1
	1,629.2
REDEEMABLE PREFERENCE SHARES	71.5
SHAREHOLDERS' EQUITY	
Common Stock	200.7
Convertible Preferred Stock	72.1
Contributed Surplus	24.2
Retained Earnings	134.7
Currency Translation Adjustment	(11.6)
	420.1
	2,120.8

Source: Inter-City 1988 Annual Report

Appendix B–1.2

INTER–CITY GAS CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 1988
($ million)

Operating Revenue	1,815.5
Operating Costs	
Cost of Sales	1,222.1
Operating, selling and administrative	336.0
Depreciation and Depletion	89.0
	1,647.1
Operating Profit	168.4
Investment Income	12.7
	181.1
Financial Expenses	
Interest on Long–Term Debt	89.4
Other Interest	23.2
Interest Capitalized	(2.0)
(Gain) Loss on Foreign Exchange	(0.7)
Amortization of Deferred Costs	2.1
	112.0
Income Before Taxes	69.1
Provision For Taxes	
Income Taxes	30.0
Alberta Royalty Tax Credit	(3.0)
	27.0
Income After Taxes	42.1
Minority Interest in Subsidiaries	(2.3)
Net Income	39.8

source: Inter–City 1988 Annual Report

Appendix B–2.1

ICG UTILITIES (ONTARIO) LTD
CONSOLIDATED BALANCE SHEET
December 31, 1988
($ 000)

ASSETS	
Fixed Assets	512,845
Investments	72,059
Other Assets	15,559
	600,463
Current Assets	
Account Receivable and Unbilled Gas	112,321
Inventory of Gas in Storage	22,821
Current Portion of Investments	4,148
	139,290
	739,753
LIABILITIES	
Long–Term Debt	234,620
Deferred Income Taxes	2,000
	236,620
Current Liabilities	
Bank Indebtedness	2,314
Accounts Payable and Accrued Charges	88,164
Income and Other Taxes	18,551
Long–Term Debt – Current	26,216
Demand Bank Credits	59,692
Advance from Parent	15,000
	209,937
	446,557
SHAREHOLDERS' EQUITY	
Common Shares	140,838
Preferred Shares	29,527
Retained Earnings	122,831
	293,196
	739,753

source: ICG Ontario 1988 Annual Report

Appendix B-2.2

ICG UTILITIES (ONTARIO) LTD
CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 1988
($ 000)

Operating Revenue	
Gas Sales	616,454
Other	17,749
	634,203
Operating Revenue Deductions	
Cost of Gas	446,106
Operating, Selling and Administrative	85,082
Depreciation	19,429
	550,617
Operating Profit	83,586
Investment Income	7,096
	90,682
Financial Expenses	
Interest on Long-Term Debt	30,039
Other Interest	4,350
Loss (Gain) on Foreign Exchange	(953)
Interest Capitalized	(612)
	32,824
Income Before Income Taxes	57,858
Provision For Income Taxes	21,355
Net Income	36,503
Minority Interest	-
	36,503
Dividends on Preferred Shares	2,352
Net Income Applicable to Common Shares	34,151

source: ICG Ontario 1988 Annual Report

Appendix B-3.1

WESTCOAST ENERGY INC.
CONSOLIDATED BALANCE SHEET
December 31, 1988
($ 000)

ASSETS	
Fixed Assets	1,933,789
Deferred Charges and Investments	86,508
Current Assets	142,569
	2,162,866
LIABILITIES	
Long-Term Obligations	
Long-Term Debt	794,290
Deferred Income Taxes	333,906
	1,128,196
Current Liabilities	
Bank Indebtedness	78,642
Accounts Payable	123,285
Income and Other Taxes Payable	4,257
Long-Term Debt - Current	16,093
	222,277
	1,350,473
SHAREHOLDERS' EQUITY	
Common Stock	359,715
Preferred Stock	110,000
Contributed Surplus	5,475
Retained Earnings	285,143
	760,333
Minority Interest	52,060
	2,162,866

source: Exhibit B1, Schedule D

Appendix B–3.2

WESTCOAST ENERGY INC.
CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 1988
($ 000)

Operating Revenue	
Gas and Oil Sales	690,048
Other	147,770
	837,818
Operating Revenue Deductions	
Cost of Gas Sold	368,534
Operation and Maintenance	196,798
Depreciation and Amortization	90,068
	655,400
Operating Income	182,418
Investment and Other Income	8,515
	190,933
Income Deductions	
Interest on Debt	95,298
Other	2,351
	97,649
Income Before Taxes	93,284
Income Taxes	28,425
Net Income	64,859
Minority Interest	2,890
	61,969
Provision for Dividends on Preferred Shares	8,876
Net Income Applicable to Common Shares	53,093

source: Exhibit B1, Schedule D

Appendix B-4.1

ICG UTILITIES (ONTARIO) LTD
PRO FORMA CONSOLIDATED BALANCE SHEET REFLECTING THE ACQUISITION
December 31, 1989
($ 000)

	Normal Dividend Policy	100% Dividend Policy
ASSETS		
Fixed Assets	460,606.7	460,606.7
Investments	110,294.3	110,294.3
Deferred Assets	11,652.4	11,652.4
Current Assets	86,296.3	86,296.3
	668,849.7	668,849.7
LIABILITIES		
Long-Term Debt	291,392.4	291,392.4
Deferred Income Taxes	7,469.0	7,469.0
	298,861.4	298,861.4
Current Liabilities		
Demand Bank Loan	47,413.2	55,735.4
Long-Term Debt - Current	11,968.2	11,968.2
Other Current Liabilities	67,595.1	67,595.1
	126,976.5	135,298.7
	425,837.9	434,160.1
SHAREHOLDERS' EQUITY		
Common Shares	105,566.0	105,566.0
Preferred Shares	26,771.9	26,771.9
Retained Earnings	110,673.8	102,351.7
	243,011.7	234,689.6
	668,849.6	668,849.7

Capitalization Ratios:

	Normal Dividend Policy	100% Dividend Policy
Short-Term Debt	7.89%	9.27%
Long-Term Debt (including current portion)	50.45%	50.45%
Deferred Income Taxes	1.24%	1.24%
Preferred Equity	4.45%	4.45%
Common Equity	35.96%	34.58%
	100.0%	100.0%

source: Exhibit H.2.3

Appendix B-4.2

ICG UTILITIES (ONTARIO) LTD
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 1989
($ 000)

Operating Revenue	
Gas Sales	472,988.3
Transportation Revenue	1,352.9
Other Operating Revenue	11,682.8
	486,024.0
Operating Revenue Deductions	
Cost of Gas	356,002.5
Other Operating Expenses	69,426.1
	425,428.6
Operating Profit	60,595.4
Investment Income	3,225.1
Equity in Earnings	8,074.1
	71,894.6
Financial Expenses	22,686.0
Income Before Income Taxes	49,208.6
Provision For Income Taxes	14,650.8
Net Income	34,557.8

source: Exhibit H.2.3

Appendix B-5.1

WESTCOAST ENERGY INC.
CONSOLIDATED BALANCE SHEET
December 31, 1988
($ 000)

	Consolidated	Pro Forma Consolidated With ICG Canada	Pro Forma Consolidated With ICG Canada Plus Ranger Oil
ASSETS			
Fixed Assets	1,933,789	2,705,278	2,705,278
Current Assets	142,569	310,982	310,982
Other Assets	86,508	133,471	208,471
	2,162,866	3,149,731	3,224,731
LIABILITIES			
Long-Term Obligations			
Long-Term Debt	794,290	1,427,342	1,427,342
Deferred Income Taxes	333,906	338,060	338,060
	1,128,196	1,765,402	1,765,402
Current Liabilities			
Bank Indebtedness	78,642	120,596	120,596
Accounts and Taxes Payable	127,542	272,905	272,905
Long-Term Debt - Current	16,093	48,779	48,779
	222,277	442,280	442,280
Minority Interest	52,060	81,716	81,716
	1,402,533	2,289,398	2,289,398
SHAREHOLDERS' EQUITY			
Common Stock	359,715	421,615	496,615
Preferred Stock	110,000	110,000	110,000
Contributed Surplus	5,475	5,475	5,475
Retained Earnings	285,143	323,243	323,243
	760,333	860,333	935,333
	2,162,866	3,149,731	3,224,731

Sources: *Exhibit B1, Schedule D*
Exhibit B2, Tab B, Schedule I
Exhibit B2, Tab B, Schedule I updated

Appendix B-5.2

WESTCOAST ENERGY INC.
CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 1988
($ 000)

	Consolidated	Pro Forma Including ICG Canada
Operating Revenue		
Gas and Oil Sales	690,048	1,438,699
Other	147,770	174,432
	837,818	1,613,131
Operating Revenue Deductions		
Cost of Gas Sold	368,534	901,615
Operation and Maintance	196,798	307,720
Depreciation and Amortization	90,068	118,971
	655,400	1,328,306
Operating Income	182,418	284,825
Investment and Other Income	8,515	12,260
	190,933	297,085
Income Deductions		
Interest on Debt	95,298	168,122
Other	2,351	2,491
	97,649	170,613
Income Before Taxes	93,284	126,472
Income Taxes	28,425	38,809
	64,859	87,663
Minority Interest	2,890	5,246
	61,969	82,417
Provision for Dividends on Preferred Shares	8,876	8,876
Net Income Applicable to Common Shares	53,093	73,541

Note: Pro Forma figures do not incorporate impact of Ranger Oil share purchase

source: Exhibit B1, Schedule D

Appendix B-6

WESTCOAST ENERGY INC.
PRO FORMA CONSOLIDATED BALANCE SHEET
December 31, 1989
($ 000)

ASSETS	
Fixed Assets	2,769,127
Investments	191,330
Deferred Charges	32,276
Current Assets	310,707
	3,303,440
LIABILITIES	
Long-Term Obligations	
Long-Term Debt	1,473,782
Deferred Income Taxes	339,508
	1,813,290
Current Liabilities	
Bank Indebtedness	103,660
Other Liabilities	277,301
Long-Term Debt - Current	56,200
	437,161
Minority Interest	82,466
	2,332,917
SHAREHOLDERS' EQUITY	
Common Stock	513,215
Preferred Stock	110,000
Contributed Surplus	5,715
Retained Earnings	341,593
	970,523
	3,303,440

Note: These figures reflect both the proposed acquisition of ICG Canada and the share acquisition of Ranger Oil.

Source: Response to Board Staff Interrogatory No. 8.

Appendix B-7

WESTCOAST ENERGY INC.
COMPARISON OF FINANCIAL RATIOS
PRE and POST-ACQUISITION
Year Ended December 31, 1989

Financial Ratio	Pro Forma Consolidated Pre-Acquisition	Pro Forma Consolidated Post-Acquisition
Equity Ratio (%)	39.80	31.20
Total Debt Ratio (%)	53.80	64.40
Times Interest Earned (Before Tax)	1.97	1.71
Times Interest Earned (After Tax)	1.74	1.53
Cash Flow Over Total Debt (%)	18.10	13.00
Cash Flow Over Current Liabilities (%)	77.30	47.00
Asset Coverage Ratio (times)	1.86	1.55
Net Profit Margin (%)	8.10	5.50
Return on Average Common Equity (%)	8.80	10.20

Note: The post-acquisition figures reflect the proposed acquisition of ICG Canada but not the share purchase of Ranger Oil.

Source: Exhibit E3

WESTCOAST ENERGY INC.
COMPARISON OF FINANCIAL RATIOS
PRE and POST-ACQUISITION
Year Ended December 31, 1988

Financial Ratio	Inter-City	Pro Forma Consolidated Pre-Acquisition	Pro Forma Consolidated Post-Acquisition
Equity Ratio (%)	26.20	38.90	29.00
Total Debt Ratio (%)	69.30	54.60	66.50
Times Interest Earned (Before Tax)	1.61	1.98	1.77
Times Interest Earned (After Tax)	1.37	1.69	1.54
Cash Flow Over Total Debt (%)	11.80	16.80	12.60
Cash Flow Over Current Liabilities (%)	21.80	69.20	45.40
Asset Coverage Ratio (times)	1.54	1.83	1.51
Net Profit Margin (%)	2.20	7.40	5.10
Return on Average Common Equity (%)	8.10	8.40	10.60

Note: The post-acquisition figures reflect the proposed accquisition of ICG Canada but not the share purchase of Ranger Oil.

Source: Exhibit E3

Appendix B-9.1

ICG UTILITIES (CANADA) LTD
PRO FORMA CONSOLIDATED BALANCE SHEET
REFLECTING THE REORGANIZATION
December 31, 1988
($ 000)

ASSETS	
Fixed Assets	679,747
Deferred Charges and Investments	46,963
Current Assets	214,066
	940,776
LIABILITIES	
Long-Term Obligations	
Long-Term Debt	313,675
Deferred Income Taxes	2,251
	315,926
Current Liabilities	
Bank Indebtedness	72,825
Accounts Payable	138,355
Income and Other Taxes Payable	20,210
Long-Term Debt - Current	32,686
	264,076
	580,002
SHAREHOLDERS' EQUITY	
Common Stock	154,189
Preferred Stock	–
Contributed Surplus	165,613
Retained Earnings	11,316
	331,118
Minority Interest	29,656
	940,776

source: Exhibit B1, Schedule D

Appendix B-9.2

ICG UTILITIES (CANADA) LTD
PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
REFLECTING THE REORGANIZATION
Year Ended December 31, 1988
($ 000)

Operating Revenue	
Gas and Oil Sales	748,651
Other	26,662
	775,313
Operating Revenue Deductions	
Cost of Gas Sold	533,081
Operation and Maintenance	110,922
Depreciation and Amortization	26,070
	670,073
Operating Income	105,240
Investment and Other Income	2,892
	108,132
Income Deductions	
Interest on Debt	39,911
Other	140
	40,051
Income Before Taxes	68,081
Income Taxes	25,194
	42,887
Minority Interest	2,356
	40,531
Provision for Dividends on Preferred Shares	-
Net Income Applicable to Common Shares	40,531

source: Exhibit B1, Schedule D